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ABSTRACT

All institutions participating in the Federal Student Financial Assistance Programs must have an annual financial aid compliance audit performed by an independent auditor. This guide is effective for fiscal years ending December 31, 1999, and thereafter, for institutions preparing for their yearly audit. The purpose of the document is to assist institutions and organizations in fulfilling their responsibilities for completing and submitting the required audit. The guide supersedes the 1997 version. Attached are five pages highlighting changes from the prior version. (HB)

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ED 446 482

AUDIT GUIDE

AUDITS OF FEDERAL STUDENT FINANCIAL ASSISTANCE PROGRAMS AT PARTICIPATING INSTITUTIONS AND INSTITUTION SERVICERS

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U.S. DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

January 2000

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UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

January 2000

Dear Colleague:

This letter transmits the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. This Guide supersedes the prior July 1997 version. Also attached are five pages highlighting changes from the prior version.

Section 487(c) of the Higher Education Act of 1965, as amended, (HEA) and Section 668.23 of Title 34 of the Code of Federal Regulations (CFR) require all institutions participating in the Federal Student Financial Assistance Programs (SFA) to have an annual financial and compliance audit performed by an independent auditor. Institutions that participate in the SFA programs frequently engage service organizations (servicers) to perform certain functions relating to the administration of the SFA Programs. Section 487(c) of the HEA and 34 CFR 668.23 requires servicers to have an annual compliance audit performed of the servicer's administration of the SFA Programs.

Normally, all financial statement and compliance audits conducted to satisfy the annual audit requirement must be done in accordance with this Guide. However, public colleges, State and local universities, and nonprofit institutions and servicers must have their audits conducted in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. The audit period and reporting deadlines have not changed, i.e., annual audits are on the institution or servicer's fiscal year and are to be completed and submitted to the U.S. Department of Education within six months after the close of the institution or servicer's fiscal year.

Effective Date of this Guide

Application of this Guide is effective for fiscal years ending December 31, 1999, and thereafter. Earlier application of the Guide is encouraged. The Guide is available on the Internet at this URL: http://home.gvi.net/~edoig . Questions pertaining to the Guide should be faxed to the Office of Inspector General at (215) 656-8628. We hope this guide will assist you in fulfilling your responsibilities for completing and submitting the required audit.

Sincerely,

Lorraine Lewis

Lorraine Lewis
Inspector General

SUMMARY OF CORRECTIONS TO
U.S. DEPARTMENT OF EDUCATION'S AUDIT GUIDE
"AUDITS OF FEDERAL STUDENT FINANCIAL ASSISTANCE PROGRAMS AT PARTICIPATING INSTITUTIONS AND INSTITUTION SERVICERS"
(January 2000)

Below is a summary of corrections made to this guide since it was first posted on this website in January 2000:

Date of Change	Page Number	Summary of Changes
07/31/00	Appendix E	Appendix improperly used the word "servicer" instead of "institution" throughout this appendix. As such, wherever the word "servicer" appeared, it was changed to the word "institution".
06/14/00	Appendix D	Guidance concerning how to download the software for generating Example E, Schedules A, B, and C has been removed and the software is no longer available. Either the Wordperfect template or the PDF format should be used instead. **Reason for Change:** The diskette generated by the software is no longer required for submission. Paper copies of the Schedules are required.
04/25/00	II-4, 4th arrow	Inserted the regulatory citation "34 CFR 668.175" at the end of the sentence. **Reason for Change:** Need for regulatory citation.
03/15/00	I-1, paragraph 3	The bracketed note concerning A-133 audit requirements has been revised to eliminate the statement that this guide must be used for program specific audits to satisfy the A-133 requirement. **Reason for Change:** OMB Circular A-133, paragraph 200(c) allows program specific audits only when an auditee expends Federal awards under only one Federal program **and** the Federal program's laws, regulations, or grant agreements **do not** require a financial statement audit of the auditee. Since the SFA regulations require financial statements, this option is not available.

SUMMARY OF MAJOR CHANGES TO THE GUIDE

The Guide has been revised to reflect Statements on Standards for Attestation Engagements (SSAE) #9 issued in April 1999 which amended SSAE's #1, #2 and #3. As a result, this guide provides for the practitioner to obtain management's assertions within a representation letter and to opine on the institution's compliance with specified requirements, not on management's assertions about compliance. However, SSAE #9 permits opinions on management's assertions on compliance, if such assertions are provided by management in a separate report attached to the auditor's report. Such will be accepted providing the auditor's report meets all requirements in accordance with paragraph 54 of SSAE #3, as amended by SSAE #9. SSAE #3 as amended by SSAE #9 is codified in the Statements on Standards for Attestation Engagements (SSAE) Attestation Standards (AT section 500).

The Higher Education Act (Act) was reauthorized on October 7, 1998. Some of the Act's provisions became effective on October 7, 1998. This Guide reflects such provisions which require audit coverage. Other provisions do not become mandatory until implementing regulations are effective. Those regulations were published in the Fall 1999 and, generally, do not become effective until the 2000-2001 award year. Those regulations will be reflected in the next edition of this guide. Institutions may elect early implementation of the Act's provisions. As part of the audit planning, the auditor should discuss with institution management whether they elected early implementation of any of the Act's provisions. If they elected early implementation of provisions covered by this Guide, the practitioner should refer to the language in the Act to determine if the institution complied with the Act's provisions.

As compliance requirements were added, changed, or moved to another part of the guide, corresponding suggested procedures were added, changed or moved to another part of the Guide.

Section I

- Clarified that the Guide applies to Foreign Schools. New paragraphs specifically related to foreign schools were added in several places in the Guide. These paragraphs are listed in the Table of Contents.

Audit Report Package

- Moved to the front part of this section. Added an overnight delivery address, and clarified that four copies of the audit report package are required.

Financial Statement Reporting

- Merged internal control and compliance reports into one report; see Examples A-2 and A-3.

Compliance Attestation Reporting

- Changed the Reporting format to one where practitioner opines on the institution's compliance with specified requirements.

- Added a new example of an Internal Control Report for Reportable Conditions/Material Weaknesses; see Example D-1.

Financial Statements

- Added a new paragraph on questionable accounting practices.
- Moved contact office to front of this section and added a contact for foreign schools.
- 85/15 rule change to 90/10. Added Dear CPA Letter dated 11/01/99, as Appendix F to provide guidance to practitioners on how to evaluate institutional loans and scholarships on other than the cash basis of accounting.
- Added information on required footnote disclosures [90/10 and Related Parties].

Compliance Attestation Engagement

- Added a section on materiality.

Deleted, under sampling methodology, the requirement that those students who were entitled to and who received a 100% refund be excluded from the withdrawal benchmark.

- Moved information about the student confirmation process to Section II, Student Eligibility.

Section II

Institutional Eligibility

- Moved consumer information to Administrative Capability.
- Added some additional Foreign medical school requirements.
- Added requirements for institutions participating under the "Zone Alternative".

Reporting

- Updated both Pell and Direct Loan.
- Added information and procedures on testing the FISAP.

Student Eligibility

- Added a paragraph on Professional Judgment determinations.
- Moved confirmation procedures to this subject.

- Added tables to show maximum loan amounts prior to and after HEA amendments of October 1, 1998.

Disbursements

- Added a new paragraph on foreign school requirements.

Refunds

- Title of section changed to "Return of Title IV Funds"
- Added paragraphs on returns of funds of $25 or less and returns of funds at Foreign Schools.
- Corrected due date for Direct Loan returns of funds to 30 days.

Cash Management

- Renamed to GAPS and Cash Management.
- Added information and suggested procedures on GAPS.

Perkins Loan

- Added paragraphs on NSLDS and Liquidation Procedures.
- Changed Maximum loan amounts (see Appendix A) due to re-authorization of the Higher Education Act on October 7, 1998.

Administrative Capability

- Added as a new assertion.
- Added compliance requirements.
- Moved consumer information from institutional eligibility to this part of the Guide.

Close Out Audits

- Clarified that this part only applies when institution ceases participation in ALL Title IV programs.
- Added a new address for contact and an overnight delivery address and updated telephone numbers.

Section III

Compliance Attestation Reporting

- Changed the Reporting format to one where practitioner opines on the servicer's compliance with specified requirements.

- Added example of Internal Control Report for Reportable Conditions/Material Weaknesses; see Example D-1.

Cash Management

- Renamed to GAPS and Cash Management.

Section V

- Added new illustrative reports - See Examples A-2, A-3 and D-1.

Example B and B-1

- Added the DUNS number to report covers.

Example C

- If applicable, require the IPA to record: the rates on correspondence courses, correspondence students, ability-to-benefit students, and incarcerated students.

Example E

- Diskette for Example E is no longer Required, Paper Submission ONLY, See revised instructions in Appendix D. Moved FDLP to correct location on Schedule C.

Example F

- New required format, including provision for the numbering of audit findings.

Examples G and H

- New provision for the numbering of audit findings.

Appendix A

- Updated Perkins Loan.

Appendix B

- Under General, added additional information on Work Study.

Appendix D

- Updated to explain that the diskette containing information on Schedules A, B, and C is no longer required to be submitted. The electronic software for generating the files on the diskette is no longer available. However, a Wordperfect template and a PDF file (available on the Internet) are still available for completing these schedules (See Appendix D).

Appendix E

- Added April 1999 Dear CPA Letter on 90/10 revenue test.

Appendix F

- Added November 1, 1999 Dear CPA Letter on 90/10 revenue test.

TABLE OF CONTENTS

ACRONYMS AND TERMS v

SECTION I AUDIT PLANNING AND OTHER CONSIDERATIONS

PURPOSE OF GUIDE I-1
Audit/Attestation Objectives I-2
Layout of the Guide I-2

ENGAGEMENT PERIODS AND REPORT DUE DATES I-3

IRREGULARITIES OR ILLEGAL ACTS I-3

DUE CARE AND PROFESSIONAL SKEPTICISM I-4

AUDITOR QUALIFICATIONS I-5

GENERAL PLANNING CONSIDERATIONS I-5
Engagement Letter I-5
Third Party Servicers Audit I-5
Administrative Actions I-6
Follow Up on Prior Audit Findings I-6
Site Visits I-6
Corrective Action Plan I-6
Close Out Examinations I-7

AUDIT REPORT PACKAGE I-7
Financial Statement Reporting I-7
Compliance Attestation Reporting I-8
Other Reporting I-8

FINANCIAL STATEMENTS I-9
Contact Office I-9
Foreign Schools I-9
Footnote Disclosures I-10
90/10 Revenue Test I-10
Related Party Transactions I-11
Management and Legal Counsel Representation Letters I-11
Consideration of Internal control Over Financial Reporting I-11

COMPLIANCE ATTESTATION ENGAGEMENT I-11
Consideration of the Internal Control Over Compliance I-12
Materiality I-13
Sampling Methodology I-14
Sample Results I-15
Reporting Noncompliance I-15

QUALITY CONTROL REVIEW OF AUDITS. I-16

FUTURE REVISIONS I-16

SECTION II REQUIRED INSTITUTION MANAGEMENT ASSERTIONS, COMPLIANCE REQUIREMENTS AND SUGGESTED PROCEDURES

INTRODUCTION II-1

1. INSTITUTIONAL ELIGIBILITY AND PARTICIPATION II-3
   Foreign Schools II-5

2. REPORTING II-8
   Pell Reporting II-8
   Loan Reporting II-9

3. STUDENT ELIGIBILITY II-13
   SFA Program Descriptions II-13
   Student Confirmations II-17

4. DISBURSEMENTS II-21
   Payment Periods II-21
   Credit Balances in Student Accounts II-23
   Disbursement Criteria II-23

5. RETURN OF TITLE IV FUNDS II-26
   Foreign Schools II-27
   Refund Sequence II-27
   Withdrawals II-28
   Timeframe for Return of Federal Funds II-28
   Leave of Absence Withdrawals II-28
   Adjustments to Pell II-28

6. GAPS AND CASH MANAGEMENT II-31

7. PERKINS LOAN II-33
   Deferment of Payments II-33
   In-School Deferment II-33
   Economic Hardship Deferment II-33
   Three Year Deferment II-34
   Cancellation II-34
   Billing and Collections II-34
   NSLDS Data Quality II-36
   Liquidation (Ending Participation in Perkins Program) II-36

8. ADMINISTRATIVE CAPABILITY II-38

9. CLOSE OUT (If Applicable) II-41

SECTION III PLANNING AND OTHER CONSIDERATIONS FOR AUDITS OF INSTITUTION SERVICERS

PURPOSE OF THIS SECTION III-1

REQUIREMENTS AND STANDARDS FOR SERVICER ATTESTATION ENGAGEMENTS III-1
Annual Compliance Audit III-1
Standards for Servicer Attestation Engagements III-2

ENGAGEMENT PERIODS AND DUE DATES III-2

SERVICER'S REPORTING ENTITY III-3
Contracting with More Than One Institution, Lender or Guaranty Agency III-3

SERVICER'S RESPONSIBILITIES III-3
Servicer Corrective Action Plan III-3

PRACTITIONER RESPONSIBILITIES III-3
Engagement and Management Representations III-3

COMPLIANCE ATTESTATION ENGAGEMENTS III-4
Purpose and Objective of Servicer Attestation Engagements III-4
Consideration of the Servicer's Internal Control III-4
Materiality III-4
Sampling Methodology III-4
Sample Results III-4
Reporting Noncompliance III-4
Compliance Attestation Reporting III-5

SECTION IV REQUIRED SERVICER MANAGEMENT ASSERTIONS, COMPLIANCE REQUIREMENTS, AND SUGGESTED PROCEDURES

INTRODUCTION IV-1

1. INSTITUTIONAL ELIGIBILITY AND PARTICIPATION IV-2
2. REPORTING IV-3
3. STUDENT ELIGIBILITY IV-4
4. DISBURSEMENTS IV-5
5. RETURN OF TITLE IV FUNDS IV-6
6. GAPS AND CASH MANAGEMENT IV-7
7. PERKINS LOAN IV-8
8. CLOSE OUT (If Applicable) IV-9
9. SERVICER ELIGIBILITY IV-10
10. SERVICER'S SYSTEMS AND INTERNAL CONTROL IV-13

SECTION V - ILLUSTRATIVE REPORTS AND APPENDICES

FINANCIAL STATEMENT

Report on the Audit of the Basic Financial Statements . . . . . Example A-1

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (No Reportable Instances of Noncompliance and No Material Weaknesses [No Reportable Conditions Identified]) . . . . . Example A-2

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (Reportable Instances of Noncompliance and Reportable Conditions Identified) . . . . . Example A-3

COMPLIANCE ATTESTATION

Compliance Report Section . . . . . Example B
Report Package Cover Page (Servicer) . . . . . Example B-1
Auditor Information Sheet . . . . . Example C
Servicer Information Sheet . . . . . Example C-1
Report on Compliance With Specified Requirements Applicable to the SFA Programs . . . . . Example D
Report on Internal Control Over Compliance [Reportable Conditions][No Material Weaknesses Identified] . . . . . Example D-1
Summary Schedules A, B, and C . . . . . Example E
Schedule of Findings and Questioned Costs . . . . . Example F
Auditor's Comments on Resolution Matters Relating to Prior Audit Findings . . . . . Example G
Corrective Action Plan . . . . . Example H

APPENDICES

SFA Programs' Minimum and Maximum Amounts . . . . . Appendix A
Examples of High Risk Indicators . . . . . Appendix B
U.S. Department of Education Offices . . . . . Appendix C
Instructions For Example E . . . . . Appendix D
Dear CPA Letter - CPA-99-01 . . . . . Appendix E
Dear CPA Letter - CPA-99-02 . . . . . Appendix F

ACRONYMS AND TERMS

Acronym/Term	Name/Meaning
AICPA	American Institute of Certified Public Accountants
AIS	Auditor's Information Sheet
approved by ED	approved by the Secretary
AT	Attestation Standards
CAP	Corrective Action Plan
CFR	Code of Federal Regulations
CMO	Case Management & Oversight
COA	Cost of Attendance
DCL	Dear Colleague Letter
DLSAS	Direct Loan School Account Statement
ED	U. S. Department of Education
EFC	Expected Family Contribution
ESAR	Electronic Student Aid Report
FAD	Final Audit Determination
FAFSA	Free Application for Federal Student Aid
FDLP	Federal Direct Loan Program
FFEL	Federal Family Education Loan
FISAP	Fiscal Operations and Application to Participate
GAPS	Grant Administration and Payment System
GAS	Government Auditing Standards
Pell	Federal Pell Grant
FPLUS	Federal Parent Loan for Undergraduate Student
FSEOG	Federal Supplemental Educational Opportunity Grant
FSFAH	Federal Student Financial Aid Handbook
FWS	Federal Work Study
GAAP	Generally Accepted Accounting Principles
GAPS	Grants Administration and Payment System
HEA	Higher Education Act of 1965, as amended
IPA	Independent Public Accountant
ISIR	Institutional Student Information Report
LOC	Loan Origination Center (FDLP term)
NSLDS	National Student Loan Data System
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
Output Document	The SAR, ESAR or Other Document or Automated Data Generated by Processing the Free Application for Federal Student Aid
PDL	Program Determination Letter
SAR	Student Aid Report
SAS	Statement on Auditing Standards
Servicer	Third-Party Servicer
SFA	Student Financial Assistance
SSAE	Statement on Standards for Attestation Engagements
SSCR	Student Status Confirmation Report
USA	United States of America

SECTION I

AUDIT PLANNING AND OTHER CONSIDERATIONS FOR AUDITS OF INSTITUTIONS

PURPOSE OF GUIDE

This guide is to assist independent auditors (IPAs) in performing audits of Federal Student Financial Assistance (SFA) programs. This guide supersedes the Audit Guide, *Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers* (July 1997 Update), and is effective for SFA financial and compliance audits (attestation engagements) for fiscal years ending December 31, 1999, and thereafter. Earlier application of the Guide (i.e. for fiscal years ending June 30, 1999) is encouraged.

The Higher Education Act of 1965, as amended, (HEA) requires annual financial and compliance audits (34 CFR Part 668.23) of Title IV HEA programs for all institutions that participate in:

- Federal Family Educational Loan Program (FFELP),
- Federal Direct Loan Program (FDLP),
- Federal Pell Grant (Pell),
- Federal Perkins Loan (FPL),
- Federal Work-Study (FWS), or
- Federal Supplemental Educational Opportunity Grant (FSEOG) Program.

This guide is to be used by all institutions which administer SFA funds, with one exception:

- Public colleges, State and local universities, and nonprofit institutions in the United States of America (USA) are audited in accordance with OMB Circular A-133. [NOTE: Organizations whose funding is below OMB Circular A-133's threshold (currently $300,000 per fiscal year) are exempt from the Circular's audit requirements. However, these organizations may be asked to submit to the U.S. Department of Education (ED) copies of any financial statement or compliance audits that are otherwise prepared for the organization.]

Foreign schools (those located outside the United States of America) must also follow this audit guide in obtaining financial statement and compliance audits of their institution.

The HEA requires that the compliance audit be performed in accordance with the standards for financial audits of the U.S. General Accounting Office's *Government Auditing Standards* (GAS) (1994 Revision), issued by the Comptroller General of the United States.

In addition to the required financial statement audit, this guide requires an examination-level attestation engagement relative to the institution management's assertions about certain compliance aspects related to SFA program participation. Therefore, in addition to applicable standards contained in GAS, the Statements on Standards for Attestation Engagements

(SSAEs), as amended by SSAE #9, issued by the American Institute of Certified Public Accountants (AICPA) also apply. Foreign school compliance audits are to meet these requirements also.

Audit/Attestation Objectives

SFA audit/attestation objectives are to:

1. Determine and report whether:

   - The institution's basic financial statements are fairly presented, in all material respects, in accordance with generally accepted accounting principles (GAAP) for USA institutions or, as discussed in this Guide, foreign country requirements;

   - The institution maintained internal control and complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on the financial statements; and

   - The institution maintained internal control and complied, in all material respects with specified compliance requirements in Section II of this guide (institutional eligibility and participation, reporting, student eligibility, disbursements, returns of Title IV funds, GAPS and cash management, Perkins Loan, administrative capability, and, if applicable, close out examinations).

2. Assist ED in meeting its stewardship responsibilities by ED's acting upon noncompliance and internal control weaknesses noted in the IPA's reports. If applicable, the IPA's audit report findings must contain adequate information to give reported matters perspective and to allow ED to take necessary corrective action (See Example F).

Layout of the Guide

This guide is divided into five sections:

Section I and III	Provides general information about engagement planning and other considerations.
Section II and IV	Identifies the compliance requirements and management's assertions that must be reported on by the IPA.
Section V	Provides the reporting requirements and illustrative reports.

This guide is not intended to be a complete manual of procedures, nor is it intended to supplant the IPA's judgment of the work required. Suggested procedures described may not cover all circumstances or conditions encountered at a particular institution. The IPA should use professional judgment and due care to tailor the procedures so that the financial statement audit

and compliance attestation engagement objectives are achieved. However, all applicable management assertions contained in this guide must be addressed by the IPA. The IPA may wish to contact the Non-Federal Audits Advisory and Assistance Team (See Appendix C) for technical assistance related to performing the engagement required by this guide.

ENGAGEMENT PERIODS AND REPORT DUE DATES

The audit is based on the institution's fiscal year for:

- Institution's basic GAAP financial statements, in accordance with *GAS* and generally accepted auditing standards; and

- Compliance by examining and reporting on the institution's compliance with specified SFA laws and regulations, in accordance with SSAEs and *GAS*.

Institutions may engage different IPAs to perform the audit of the financial statements and the compliance attestation engagement.

A combined financial statement and compliance attestation report package is due six months following the fiscal year end (34 CFR 668.23). The institution's failure to meet report due dates may result in administrative sanctions described in 34 CFR 668, Subpart G. Questions concerning report periods and due dates should be addressed to the Performance Improvement and Procedures Division, Case Management & Oversight, contact office shown on Page I-9.

Effective July 1, 2000, institutions that have not disbursed $200,000 or more of Title IV, HEA program funds for two consecutive completed award years, and conform to applicable regulatory requirements, may apply for a waiver of the annual audit submission requirement. If granted, the waiver allows for an audit to be submitted for a two or three year period. Full details are set forth in 34 CFR 668.27.

IRREGULARITIES OR ILLEGAL ACTS

This Guide requires practitioners to design and perform procedures to provide reasonable assurance of detecting significant illegal acts and to report directly to the ED Office of Inspector General (EDOIG) any fraudulent act or indication of such acts. In addition, SSAE #3, as amended by SSAE # 9, paragraph 28 says that an examination-level engagement includes "designing the examination to detect both intentional and unintentional noncompliance that is material to management's assertion." Accordingly, practitioners should be aware of fraud or high risk areas and recognize basic weaknesses in internal control. See Appendix B for a list of some examples of high risk indicators or conditions a practitioner may encounter while performing the compliance engagement.

As described in Paragraph 4.16 of *GAS*, if the practitioner becomes aware of fraud or indications of fraud, the practitioner should exercise due professional care in pursuing indications of possible fraud and illegal acts so as not to interfere with potential future investigations, legal proceedings, or both. Under some circumstances, laws, regulations, or policies may require practitioners to report indications of certain types of fraud or illegal acts

to law enforcement or investigatory authorities before extending audit steps and procedures. Practitioners may also be required to withdraw from or defer further work on the audit or a portion of the audit in order not to interfere with an investigation.

Upon discovery of a fraudulent act or indication of such an act related to Title IV Federal programs, regardless of dollar value, this Guide requires the practitioner to immediately contact the ED Office of Inspector General, Investigation Services (EDOIG/IS), by phone or fax at the numbers shown below before extending audit steps and procedures (GAS 4.16). In addition, the practitioner must promptly prepare a separate written report concerning fraudulent acts or indications of such acts and include all information described in Section V on reporting findings. This report should be submitted to the EDOIG/IS, within 30 days after the date of discovery of the act or within the time frame agreed to by the practitioner and the EDOIG/IS. The report should be submitted to EDOIG/IS at the following address:

Assistant Inspector General for Investigations
U. S. Department of Education
400 Maryland Avenue, SW
MES, Room 4122
Washington, D.C. 20202-1510
Phone: 202-205-8762
Fax: 202-205-9449

Failure to notify the ED Office of Inspector General, Investigative Services, of fraud could subject the IPA to sanctions. For supplemental guidance, see Chapters 4 and 5 of *GAS*. In addition, practitioners may wish to consult SAS No. 82, *Consideration of Fraud in a Financial Statement Audit*, and SAS No. 54, *Illegal Acts by Clients* (AICPA, *Professional Standards*, vol. 1, AU sec. 316 and 317, respectively).

DUE CARE AND PROFESSIONAL SKEPTICISM

Paragraph 3.26 of *GAS* states that due professional care should be used in conducting the audit and in preparing related reports. SSAE #3, as amended by SSAE #9, paragraph 35 requires that the practitioner:

> "exercise (*a*) due care in planning, performing, and evaluating the results of his or her examination procedures and (*b*) the proper degree of professional skepticism to achieve reasonable assurance that material noncompliance will be detected."

Practitioners are cautioned against ignoring basic weaknesses in internal control, performing audit steps mechanically (auditing form over substance), and accepting explanations for audit exceptions without competent evidence.

AUDITOR QUALIFICATIONS

IPAs must meet the qualification and independence standards specified in *GAS*, including continuing education and peer review requirements. Internal auditors of an institution are not independent while auditing within it. However, IPAs may consider the work of the internal auditors in performing the financial statement audit and the examination-level compliance attestation engagement. IPAs should apply the concepts and guidance in SAS No. 65, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*.

Government Auditing Standards require IPAs and audit firms to comply with applicable provisions of the public accountancy law and rules of the jurisdiction in which they are licensed and where the engagement is being conducted. If the institution is located in a state outside of the home state of the IPA, and the IPA performs substantial field work in the institution's state, the IPA should document his/her compliance with the licensing requirements of the public accountancy laws of that state. This guide does not impose additional licensing requirements beyond those established by the individual State Boards of Accountancy.

Auditors of foreign schools must comply with the auditor qualifications provisions of the public accountancy law and rules of the country in which the institution is located.

GENERAL PLANNING CONSIDERATIONS

Engagement Letter

An engagement letter between the institution and the IPA shall be prepared and must include the following:

- A statement that the engagement (financial statement and compliance attestation) is to be performed in accordance with *Government Auditing Standards*, and for the compliance engagement, the AICPA's Statement on Standards for Attestation Engagements (SSAE) No. 3 as amended by SSAE No. 9;

- A description of the scope of the engagement and the related reporting that will meet the requirements of this guide;

- A statement that both parties understand that ED intends to use the IPA's report to help carry out its oversight responsibilities of the Title IV programs; and

- A provision that the IPA is required to provide ED, the Inspector General and their representatives access to working papers (including making photocopies, as necessary). [IPAs should refer to AU Section 9339, "Interpretations of AU Section 339 'Working Papers,'" of the AICPA Professional Standards for guidance.]

Third Party Servicers Audit

When an institution uses a third party servicer (servicer), the IPA should obtain the most recent servicer audit and any other reports regarding servicer compliance. If the audit contains

findings of noncompliance, the IPA should assess the effect of that noncompliance on the nature, timing or extent of substantive tests at the institution. If significant noncompliance is disclosed in the servicer's audit, the IPA must assess the effect of that noncompliance on the institution and include that information in the audit report.

Administrative Actions

IPAs should be aware that ED may impose administrative actions on institutions when they do not comply with program requirements. Accordingly, the IPA should consider administrative actions, if any, when assessing risk. The IPA should inquire of institution management as to whether any administrative actions were imposed by ED. Such administrative actions commonly involve Title IV cash management and may require an institution to:

- Contract with an escrow agent to monitor funding,
- Be on a reimbursement method of payment, or
- Be on a cash monitoring method prescribed by ED.

Follow-up on Prior Audit Findings

The IPA should review prior audit findings, including findings from the previous IPA audit, ED-OIG audits, ED-Student Financial Assistance Program (SFAP) reviews, guarantee agency reports, State licensing agency reports, and the resolution of those findings. In many cases the procedures performed in the current audit will provide a basis for the IPA to evaluate prior audit findings (See Example G). If there are no prior year compliance audit findings, the IPA should make a statement to that effect. Annual SFA compliance audits are required, thus, if there are no prior year compliance audit reports, prepare a finding to that effect unless this audit is of the institution's first year of participation in the Title IV programs.

Site Visits

A substantial portion of an institution's records and processes may be at another location, yet enrollment/SFA application processes and attendance monitoring are generally located at the institution. In order to obtain an understanding of the related internal control and to assess control risk, the processes which take place at the institution must be observed. Therefore, the IPA must perform audit procedures at the institution either during the audit or during the audit period. Likewise, foreign institutions may have enrollment and academic files whereas the SFA documentation is located in the USA. The IPA should visit every location in the first year of an engagement. For a cyclical approach to be acceptable, each location should be visited at least once every two years. The IPA must identify the location(s) and the date(s) of the visits on the Auditor's Information Sheet (AIS) (See Example C).

Corrective Action Plan

To assist in resolving instances of noncompliance, reportable conditions, and material weaknesses in the internal control identified by the IPA, ED requires an auditee to develop a corrective action plan (CAP) as part of its audit report package. The CAP is considered an essential part of the report requirement for the Title IV, HEA Programs. The CAP must be

prepared by the auditee on the auditee's letterhead, and include the name, title, and telephone number of the auditee official responsible for its preparation.

The CAP must describe the corrective action taken or planned in response to findings identified by the IPA. In addition, the auditee must comment on the status of corrective action taken on prior findings. Additional guidance for the CAP is provided in Section V of this guide (Example H).

Audit report packages submitted without an applicable CAP are incomplete and will be returned to the institution. Institutions or servicers may be subject to administrative sanctions pursuant to 34 CFR 668 Subpart G.

Close Out Examinations

An institution that loses eligibility, ceases to provide educational instruction, or otherwise discontinues participation in all Title IV programs must have a close out compliance examination (currently, no financial statement audit is required). This examination must cover the period from the end of the last compliance examination through the date participation ends. All institution compliance sections of this guide must be tested and the report is due to ED within 90 days after the date participation ends.

AUDIT REPORT PACKAGE

The institution (servicer) shall transmit four copies of the institution's (servicer's) audit report package and its corrective action plan to:

By U. S. Postal Service delivery:

U.S. Department of Education
Case Management & Oversight
Data Management & Analysis Division,
Document Receipt & Control Center
P. O. Box 44805
L'Enfant Plaza Station
Washington, D.C. 20026-4805

By commercial overnight mail/courier delivery:

U. S. Department of Education
Case Management & Oversight
Data Management & Analysis Division,
Document Receipt and Control Center
7th & D Streets, S.W.
GSA Building, Room 5643
Washington, D.C. 20407

Financial Statement Reporting

An institution's financial statement portion of the audit report package must include the following:

1. A Report on the Audit of the Basic Financial Statements (Example A-1); **AND**

2. A Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing*

Standards (No Reportable Instances of Noncompliance and No Material Weaknesses [No Reportable Conditions Identified]) (Example A-2); **OR**

3. A Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (Reportable Instances of Noncompliance and Reportable Conditions Identified) (Example A-3).

Compliance Attestation Reporting

The compliance report, or the compliance report section if a single combination financial and compliance audit report package is issued, must start with a page which clearly indicates the programs, sites, and period which were examined (Example B). The reporting package must include the following:

1. Auditor Information Sheet (Example C) and if the institution uses a servicer, the Servicer Information Sheet (Example C-1);

2. A Report on Compliance with Specified Requirements Applicable to SFA Programs (Example D);

3. If applicable, a Report on Internal Control Over Compliance [Containing Reportable Conditions] [No Material Weaknesses Identified] in accordance with SSAE #3, as amended by SSAE #9, paragraph 44 (Example D-1);

4. Summary Schedules (Example E - See Appendix D) and Schedule of Findings and Questioned Costs (Example F);

5. IPA's comments on resolution matters of prior audit findings (Example G);

6. Institution's Corrective Action Plan (Example H); and

7. If a separate report on illegal acts which could result in criminal prosecution was submitted in accordance with the instructions in Section I of this guide, it should also be included as part of the reporting package.

Other Reporting

1. If applicable, a report on Pell adjustments as outlined in P-97-2.

FINANCIAL STATEMENTS

The audit of the institution's basic GAAP financial statements must be performed in accordance with *GAS* and generally accepted auditing standards. The IPA's reports are illustrated at Examples A-1 through A-3.

Contact Office

If you have any questions regarding financial statement audit requirements or the financial statement presentation, contact:

U. S. Department of Education
Performance Improvement and Procedures Division, CMO
Attn: Financial Analysis
400 Maryland Avenue, SW
ROB-3, Room 3682
Washington, DC 20202-5265

Tel. (202) 260-5742
Fax: (202) 708-6730

Foreign Schools

Foreign schools' financial statements may be prepared in accordance with the generally accepted accounting principles of the school's home country if the school administered less than $500,000 of Title IV funds during its fiscal year. Schools administering more than $500,000 per fiscal year must have their financial statements translated to conform to United States standards (34 CFR 668.15). The translation is as of the close of business on the last business day of the school's fiscal year in the country in which the school is located and must be translated in accordance with guidance in Financial Accounting Standards Board Statement of Financial Accounting Standards No. 52, Foreign Currency Translation. If you have questions regarding financial statement audit requirements or financial statement presentation, contact:

U. S. Department of Education
Case Management Division/Northeast, CMO
Attention: Foreign Schools
400 Maryland Ave. SW
ROB 3, Room 3915
Washington, DC 20202-5340

Tel: (202) 708-8820
Fax: (202) 205-2904

Footnote Disclosures

90/10 Revenue Test

A proprietary institution must disclose in a footnote to its audited financial statements the percentage (including the figures used to make the calculation) of its revenues derived from the Title IV funds received during the fiscal year covered by that audit (34 CFR 668.23). The calculation must be made on a **cash basis** and in accordance with 34 CFR 600.5. 34 CFR 600.5(d)(1) prescribes this formula for calculating the percentage:

(Numerator)	*"...Title IV, HEA program funds the institution used to satisfy tuition, fees, and other institutional charges to students*
(Divided by:)	———
(Denominator)	*The sum of revenues generated by the institution from: Tuition, fees, and other institutional charges for students enrolled in eligible programs as defined in 34 CFR 668.8; and activities conducted by the institution, to the extent not included in tuition, fees, and other institutional charges that are necessary for the education or training of its students who are enrolled in those eligible programs."*

The formula is quite clear that only income from eligible programs can be included in the calculation.

In April 1999 the OIG issued Dear Certified Public Accountant letter (CPA-99-01) which contained guidance on the 90/10 Revenue Test (See Appendix E). In addition to reviewing that letter, IPAs should read 34 CFR 600.5 regarding the 90/10 Revenue Test.

In October 1999, the ED issued Dear Partner letter GEN-99-33, informing the education community that with respect to valid institutional loans and scholarships, the Department, absent unusual circumstances, did not intend to exercise its enforcement authority against institutions that rely on these loans and scholarships as non-federal revenue solely on the grounds that the loans and scholarships fail to comply with cash basis accounting requirements. On November 1, 1999, the OIG issued Dear Certified Public Accountant letter (CPA-99-02). This letter provided guidance to practitioners on how to evaluate institutional loans and institutional scholarships on other than the cash basis of accounting as a result of the ED Dear Partner letter. The OIG 'Dear CPA' letter and the ED 'Dear Partner' letter are included as Appendix F to this Guide.

Related Party Transactions

Statement on Standards No 45, Omnibus Statement on Auditing Standards--1983, codified at AU Section 334, provides guidance on related party transactions. 34 CFR 668.23 (d) states:

> *"...As part of these financial statements, the institution must include a detailed description of related entities based on the definition of a related entity as set forth in the Statement of Financial Accounting Standards (SFAS) 57. The disclosure requirements under this provision extend beyond those of SFAS 57 to include all related parties and a level of detail that would enable the Secretary to readily identify the related party. Such information may include, but is not limited to, the name, location and a description of the related entity including the nature and amount of any transactions between the related party and the institution, financial or otherwise, regardless of when they occurred."(emphasis added)*

IPAs must assure that management complies with 34 CFR 668.23(d).

Management and Legal Counsel Representation Letters

The IPA is required to obtain management's and legal counsel's written representations as part of the financial statement audit. Management's written representations must also be obtained for matters concerning compliance with SFA program laws and regulations that have a direct and material effect on the financial statement amounts. Additional guidance is provided in SAS No. 85, *Management Representations* and SAS No. 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*.

Consideration of Internal Control Over Financial Reporting

Guidance on the IPA's consideration of internal control in the financial statement audit is provided in *GAS* and SAS No. 78, *Consideration of Internal Control in a Financial Statement Audit*. The IPA's responsibility to communicate reportable conditions and material weaknesses in internal control noted in the financial statement audit are described in SAS No. 60, *Communication of Internal Control Related Matters Noted in an Audit* and *GAS* and SAS No. 87, *Restricting the Use of an Auditor's Report*.

COMPLIANCE ATTESTATION ENGAGEMENT

SSAE #1, as amended by SSAE #9, paragraph 1 defines an attest engagement as:

> "...one in which a practitioner is engaged to issue or does issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party."

Further, paragraph 10 states:

> "Performing attest services is different from preparing and presenting an assertion. The latter involves collecting, classifying, summarizing, and communicating information; this usually entails reducing a mass of detailed data to a manageable and understandable form. On the other hand, performing attest services involves gathering evidence to support the assertion and objectively assessing the measurements and communications of the asserter. Thus, attest services are analytical, critical, investigative, and concerned with the basis and support for the assertion."

The compliance attestation engagement must be performed as an examination level engagement in accordance with SSAEs and *GAS*. Management's written assertions are the basis for the IPA's testing and therefore are an integral part of the engagement. Such assertions normally should be obtained from management in a letter of representation to the IPA. **The IPA should also obtain all the representation's from management required by SSAE #3, as amended by SSAE #9, paragraphs 9 and 67** [1] **(Codified at AT §500.72). Paragraph 68 discusses the IPA's responsibility when management refuses to furnish all appropriate written representations.**

The institution is responsible for all assertions in Section II of this guide even if the institution contracted with a servicer to perform certain of the compliance activities covered by this guide.

It is ED's opinion that institutions maintain or have access to sufficient documentation to make the required assertions in Section II of this guide. Institutional eligibility, reporting, student eligibility, disbursements to students, returns of Title IV funds, GAPS and cash management, Perkins Loan and administrative capability documentation *originate at the institution*. If necessary, documentation at a servicer should be obtained so management can make the required assertions. Scope limitations because of management's refusal to provide the assertions in Section II of this guide may result in the institution being subject to administrative actions listed in 34 CFR 668 Subpart G. SSAE #3, as amended by SSAE #9, paragraph 68 discusses the IPA's responsibility when management refuses to furnish all appropriate written representations.

Consideration of Internal Control Over Compliance

Overall guidance for the consideration of internal control in an examination-level attestation engagement is provided in *GAS* and in SSAE #3, as amended by SSAE #9, paragraphs 42 through 44. Paragraph 42 states that the IPA should obtain an understanding of relevant portions of internal control over compliance sufficient to plan the examination engagement and to assess control risk for compliance with the specified requirements (that is, compliance requirements specified in Section II and Section IV). **IPAs must document their understanding** (may include flowcharts, narrative, or other means) and their **assessment of**

[1] Quality Control Reviews conducted by the Office of Inspector General have identified a significant number of engagements not containing the required written representations.

control risk. Section II and Section IV of this Guide include footnotes for the suggested audit procedures that have related internal control and risk assessment documentation requirements.

In planning the engagement, the IPA should be aware that SFA programs are normally administered by more than one organizational component within the institution and that each component may maintain a separate or different internal control, policies, or procedures for ensuring compliance. Controls over the following warrant particular emphasis:

- Institutional eligibility,
- Determination of student eligibility,
- Disbursements, and
- Returns of Title IV funds.

During an examination-level attestation engagement, the IPA may become aware of reportable conditions or material weaknesses in the institution's internal control over compliance. A reportable condition is a significant deficiency in the design or operation of internal control over compliance that could adversely affect the institution's ability to comply with the specified requirements. A material weakness is a reportable condition in which the design or operation of internal control does not reduce to a relatively low level the risk that noncompliance with one or more of the specified requirements could occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The IPA's responsibility to communicate these deficiencies in an examination of management's assertion is similar to the IPA's responsibility described in SAS No. 60 (AU 325). However, this guide requires all communications of reportable conditions and material weaknesses in internal control over compliance to be in writing and requires the IPA to include a copy of such report in the IPA's reporting package (See Example D-1). If there are no reportable conditions or material weaknesses, this report is not required.

Materiality

SSAE #3, as amended by SSAE #9, paragraphs 33 and 52 provide guidance on the IPA's consideration of materiality as it relates to each separate management assertion about compliance. Materiality for purposes of compliance assertions differs from materiality for financial reporting purposes. Accordingly, materiality relates to each separate management assertion about compliance. The IPA should consider the materiality of management's assertions in the context of total SFA funding or individual attribute. In the case of a servicer, the IPA should consider the materiality of management's assertions in relation to each of the individual services performed. The IPA should issue a qualified or adverse opinion when reporting instances of noncompliance that are material in relation to each of the specific compliance requirements (Note: For institution audits, many IPAs have defined materiality as an error rate and/or a dollar level of questioned costs). **The IPA's considerations on materiality should be properly documented in the audit working papers [2].**

[2] Quality Control Reviews conducted by the Office of Inspector General have identified a significant number of engagements where the IPAs consideration of materiality was not properly documented.

Sampling Methodology

This guide requires the following sampling methodology to be used to test the required management assertions on student eligibility, disbursements and returns of Title IV funds in Section II of this guide. The population of students who received Title IV SFA during the engagement period (fiscal year) should be segregated into two universes:

1) Students who were enrolled or graduated or are on an approved leave of absence, and

2) Students who withdrew, dropped, or were terminated.

Obtain or calculate the withdrawal benchmark using the following formula:

$$\frac{\text{SFA students who withdrew, dropped or were terminated during the fiscal year}}{\text{Total SFA students for the fiscal year}}$$

Based on the withdrawal benchmark, the IPA should follow one of the two Approaches described below. **Both approaches require all randomly selected students[3] to be tested for student eligibility, disbursements and, if appropriate, returns of Title IV funds.** See Sample Results for discussion if material noncompliance is found and additional testing is required.

Approach I. Withdrawal Benchmark Less Than 33%

1) From the universe of students who were enrolled or graduated or are on an approved leave of absence during the fiscal year, select a minimum random sample of 50 students, or 25% of the total number of students in the universe if the universe has less than 200 students.

- AND -

2) From the universe of students who withdrew, dropped or were terminated during the fiscal year, select a minimum random sample of 25 students, or 10% of the total number of students in the universe if the universe has less than 200 students.

Approach II. Withdrawal Benchmark Greater Than or Equal to 33%

1) From the universe of students who were enrolled or graduated or are on an approved leave of absence during the fiscal year, select a minimum random sample of 25 students, or 10% of the total number of students in the universe if the universe has less than 200 students.

- AND -

[3] Notifying institutions of the students selected for the sample prior to on-site audit work is strictly prohibited.

2) From the universe of students who withdrew, dropped, or terminated during the fiscal year, select a minimum random sample of 50 students, or a minimum of 25% of the total number of students in the universe if the universe has less than 200 students.

Sample Results

If the IPA determines that material noncompliance exists he/she must expand the sample in order to evaluate statistically the projected error rate and report total SFA questioned costs at the 95% confidence level with a confidence interval of $\pm 5\%$. Sample results must be considered in the context of either total SFA funding or individual attribute. Statistical sampling results must include information on the population, sample size, and error found in the sample.

Note: For school audits, the sample results from each universe of students must be analyzed separately.

All other noncompliance findings[4] must include information on the IPA's definition of material noncompliance, and the number of students and dollar value by SFA program for :

- Population,
- Sample size, and
- Instances of noncompliance.

For school audits only, the IPA should incorporate the three summary schedules outlined in Example E in the Schedule of Findings and Questioned Costs (Example F). The information in Example E must be submitted as part of the reporting package to assist ED in the efficient resolution of audit findings. Follow the instructions in Appendix D for submitting Example E.

Reporting Noncompliance

This guide requires that all instances of noncompliance identified by the institution's management in its assertions or by the IPA during his/her engagement must be reported as a finding in the Schedule of Findings and Questioned Costs. This applies even in those cases where corrective action was taken by the institution after the examination period. The only exceptions are those instances of noncompliance that are detected by the auditee's internal control and corrected in a timely manner.

Managements's assertions and the IPA's reports issued pursuant to this guide are a primary tool used by program managers in meeting their stewardship responsibilities in overseeing the SFA programs. The areas of noncompliance noted in management's assertions and/or the IPA's reports must be acted upon by ED program managers. To be of value, these reports must contain adequate information to give reported matters perspective and to allow the managers to take necessary corrective action.

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[4] During audit resolution ED may require a statistical sample or a full file review of all Title IV students to be completed.

QUALITY CONTROL REVIEW OF AUDITS

The ED OIG has implemented procedures for evaluating audits performed by non-Federal auditors. As part of this evaluation, the IPA must make the supporting audit working papers available to ED OIG upon request in accordance with 34 CFR 668. If the working papers are requested, the IPA should consider the guidance in AU Section 9339.1, *Providing Access to or Photocopies of Working Papers to a Regulator.*

Recent quality control reviews have identified numerous deficiencies where IPAs have not documented, in their working papers, the audit work performed and conclusions reached in accordance with *GAS*. Substandard working papers or major inadequacies in an audit may result in: (1) referrals to the AICPA and the cognizant State Board of Accountancy; (2) actions to suspend or debar the IPA from further participation in Federal program audits; or (3) actions to recover civil penalties from the IPA.

FUTURE REVISIONS

Revisions to certain auditing standards are contemplated. As they become effective, the IPA must modify audit performance to meet the revised audit standards.

ED periodically revises the SFA program compliance requirements and the OIG plans to issue revisions to this guide to reflect changes. The IPA is responsible for assuring that he/she is using the most current version of this guide. The IPA should periodically review the Non-Federal Audit Team Internet website for updated information regarding this Guide at: http://home.gvi.net/~edoig

Any suggestions for improvement to this guide are welcome and should be forwarded on the IPA's letterhead to:

U.S. Department of Education
Office of Inspector General
Director, Non-Federal Audits
Wanamaker Building
100 Penn Square East, Suite 502
Philadelphia, PA 19107
FAX: 215-656-8628

SECTION II

REQUIRED INSTITUTION'S MANAGEMENT ASSERTIONS, COMPLIANCE REQUIREMENTS, AND SUGGESTED PROCEDURES

INTRODUCTION

This section:

1. Sets forth the minimum standards, which are the subject of management's written compliance assertions;

2. Briefly describes the related compliance requirements; and

3. Provides guidance on the general approach the IPA should consider in designing and carrying out procedures in his or her examination of management's written assertions.

As discussed in Section I, the suggested procedures in this section are not intended to be a complete set of procedures to satisfy the engagement objectives, nor are they intended to supplant the IPA's judgment about the testing necessary for the IPA to report on the institution's compliance with the specified requirements.

To perform the engagement, the IPA should obtain, read and/or have available:

- 34 CFR Parts 600, 668, 673, 674, 675, 676, 682, 685, 690 (Contained in 34 CFR Part 400 To End, revised as of July 1, 1998. Available on the Internet at http://home.gvi.net/~edoig/ under the caption, Government Resources or at the Internet address in the following bulleted item)

- ED "Dear Colleague" letters, Federal SFA Handbook, the Direct Loan School Guide for the year(s) being audited and A Guide to SARs and ISIRs (available on the Internet at http://ifap.ed.gov)

- ED Payee Guide for the Grant Administration and Payment System (GAPS). See Internet at http://gapsweb.ed.gov

- The institution's:

  - Catalog,
  - Pell Student Payment Summary (SPS) [Final, if available],
  - Direct Loan School Account Statement (DLSAS),
  - Student Status Confirmation Reports (SSCRs),
  - FISAP,
  - Annual Reports:

    - Campus Crime Report,
    - Information regarding completion or graduation rates and transfer-out rates,
    - Published report on student athletes,

- Compilation of revenues and expenses of intercollegiate athletic activities by specific sports for institutions offering athletically related student aid.

The IPA should be familiar with the relevant statutes and sections of the CFR to obtain a complete understanding of the compliance requirements. Specific requirements may change periodically; IPAs should be alert to those changes. An excellent resource for updated SFA information is the annual Federal Student Financial Aid Handbook.

1. INSTITUTIONAL ELIGIBILITY AND PARTICIPATION

Required Management Assertion

[Institution] complied with the Institutional Eligibility and Participation compliance requirements listed in Section II of the ED SFA Guide.

Compliance Requirements

To participate in the Title IV programs, an institution must be an eligible institution of higher education, a postsecondary vocational institution, or a proprietary institution of higher education and must have:

- ED Institution Approval Notice (formerly Institutional Eligibility Notice) that lists approved locations and eligible programs (34 CFR 600.10);
  - Eligibility does not extend to any locations that an institution establishes after it receives its eligibility designation, if the institution provides at least 50% of an educational program at that location - unless the institution notified ED of the location and ED does not require an eligibility application for that location;
  - Programs added which are greater than 600 clock hours may be considered eligible programs provided they satisfy eligibility criteria described in 34 CFR 668.8 (institutions are liable for Title IV funds disbursed for programs determined ineligible); programs less than 600 clock hours must be pre-approved by ED and must meet, if not a graduate or professional program, the qualitative factors of a 70% completion rate and a 70% placement rate (34 CFR 668.8 (d),(e),(f), and (g);
  - Undergraduate programs offered in credit hours must meet certain requirements for the amount of instruction provided in each credit hour, unless exempted by regulation. The requirements are spelled out in 34 CFR 668.8 (k) and (l) and 668.9. Dear Colleague Letter (DCL) GEN-95-38 dated August 1995 notified institutions of the actions they must have taken to assure they were in compliance with the requirements.
- Accreditation letter from its accrediting agency covering the fiscal year (34 CFR 600.5, 600.11);
- Been licensed throughout the fiscal year to conduct business or programs by the jurisdiction/agency in which it is located, if required (34 CFR 600.5);
- Not filed for bankruptcy (34 CFR 600.7);
- Not pled guilty to, or pled *nolo contendere* to, or been found guilty of, a crime involving Title IV funds or been judicially determined to have committed fraud

involving Title IV funds. This includes the institution, any one of its owners, or its chief executive officer (34 CFR 600.7);

- Not paid to any persons or entities any commission, bonus, or other incentive payment based directly or indirectly on success in securing enrollments, financial aid to students, or student retention [34 CFR 668.14(b)(22)];

- Not been notified by ED of the loss of eligibility for one or all of the Title IV programs due to high default rates [34 CFR 668.17];

- Not had for the *award year* that ended during the institution's fiscal year (34 CFR 600.7):

  - More than 50% of its courses as correspondence or telecommunications;

  - 50% or more of its regular students (student enrolled for the purpose of obtaining a degree, certificate or diploma) enrolled in correspondence courses;

  - 25% or more of its regular students incarcerated;

  - 50% or more of its regular students without a high school diploma or the recognized equivalent and the institution did not provide a four or two year program for which it awards a bachelor's or associate degree, respectively;

- Notified the Secretary within 10 days, if participating under the zone alternative, of any of the following events [34 CFR 668.175]:

  - Any adverse action, including a probation or similar action, taken against the institution by its accrediting agency;

  - any event that causes the institution, or related entity as defined in the Statement of Financial Accounting Standards (SFAS) 57, to realize any liability that was noted as a contingent liability in the institution's or related entity's most recent audited financial statement;

  - any violation by the institution of any loan agreement;

  - any failure of the institution to make a payment in accordance with its debt obligations that results in a creditor filing suit to recover funds under those obligations;

  - any withdrawal of owner's equity from the institution by any means, including by declaring a dividend; or

- any extraordinary losses, as defined in accordance with Accounting Principles Board (APB) Opinion No. 30.

Foreign Schools

To continue participation, foreign graduate medical schools, in addition to the preceding criteria, must have:

- Programs of clinical and medical classroom instruction of not less than 32 months in length that are supervised closely by members of the school's faculty [34 CFR 600.55(a)(1)];

- During the previous academic year, at least 60 percent of those enrolled as full-time regular students in the school or in the school's most recent graduating class had not been U.S. citizens [or permanent residents of the U.S., or citizens of the Freely Associated States (Micronesia, Republic of the Marshall Islands, and the Republic of Palau)] . In addition at least 60 percent of the school's students and graduates who took any step of the examinations of the Educational Commission for Foreign Medical Graduates (ECFMG)(including the ECFMG English test) in the year preceding the year for which any of the school's students seeks an FFEL program loan received passing scores on the exams[1],

  -OR-

  The school's clinical training program was approved by a USA State as of January 1, 1992 and is currently approved by that state [34 CFR 600.55(a)(5)].

The institution is required to notify ED of any violations of the above criteria. Thus, the institution must have methods of determining compliance with the criteria. *The IPA should immediately notify the institution and/or its governing body if it is determined that the institution fails to meet any institutional eligibility criterion. The IPA should follow the guidance for reporting irregularities and illegal acts as discussed in the Section I of this guide.*

Suggested Procedures

a.[2] Review, evaluate, and document the institution's methodologies for determining compliance with institutional eligibility and participation criteria.

b. 1. Through inquiries of management, identify and report on the AIS (Example C) all locations where education was provided during the award year covered by the engagement period.

---

[1] ED Regulations (34 CFR 600.55) state that for the calculation involving passing the ECFMG, a foreign medical school shall count as a graduate each person who graduated from the school during the three years preceding the year for which the calculation is performed.

[2] Review, evaluate and document means: the IPA must document his/her understanding of the relevant portions of internal control and the assessed level of control risk.

2. Compare those locations to the locations on the ED Institution Approval Notice (formerly Institutional Eligibility Notice) which covers the fiscal year and report as a questioned cost all Title IV funds at unapproved locations where greater than 50% of an educational program was offered.

3. Test graduated students' academic records to determine that educational programs were offered and conducted at stated lengths and durations (including foreign medical school programs).

4. For short term programs only (less than 600 clock hours), test, for completeness and proper classification, the universes used as the basis for the completion and placement rates to verify they were at least 70% and re-compute the institution's calculations of percentages. Record the percentages on the Auditor's Information Sheet (Example C-1).

5. If the institution offers undergraduate programs in credit hours, determine if the institution followed 34 CFR 668.8 (k) and (l) and 668.9 and DCL GEN-95-38 guidance, as applicable. Obtain, review and verify that any required clock to credit hour conversion(s) conform to requirements.

c. Obtain and inspect the following to determine the institution was in compliance with its accrediting agency(s):

1. The accreditation letter from the institution's accrediting agency covering the fiscal year; and

2. Any subsequent correspondence covering the fiscal year.

d. Obtain and inspect licenses covering the fiscal year:

1. Determine that the institution and its additional locations are properly licensed to conduct business by the jurisdiction in which they are located.

2. Determine that the institution's educational programs are licensed, where applicable.

e. Make inquiries of institution's management and obtain, as part of the management representation, written representation that the institution:

1. Notified ED of any bankruptcy filing involving the institution or its parent corporation;

2. Its owner, or its chief executive officer, has not pled guilty to, has not pled *nolo contendere* to, or was not found guilty of a crime involving Title IV funds; and

3. Has not been notified by ED that it has lost eligibility for any one or all of the Title IV programs.

f. Test payroll and other disbursement records to determine whether the institution paid to any persons or entities any commission, bonus, or other incentive payment based directly or indirectly on success in: securing enrollments, financial aid to students or student retention.

g. Obtain from the institution its calculation of its award year institutional eligibility ratios regarding correspondence or telecommunications programs, correspondence, incarcerated and ability-to-benefit students.

1. Test the universes used for completeness and proper classification; and

2. Recompute the institution's calculation.

h. For an institution participating under the zone alternative, review correspondence files, loan agreements, and the books of account and determine that the Secretary was promptly notified within 10 days of any action required to be reported.

i. For foreign graduate medical schools, as appropriate:

1. Determine that the institution's programs of clinical and medical instruction are for at least 32 months in length.

-AND-

2. Obtain from the institution its calculation of the percentage of: students who were not U. S. citizens [or permanent residents of the U.S., or citizens of the Freely Associated States (Micronesia, Republic of the Marshall Islands, and the Republic of Palau)] who were enrolled as full-time regular students in the school in the prior academic year; such citizens in the school's most recent graduating class; and, the school's students and graduates who passed any step of the ECFMG in the previous year.

a. Test the universes used for completeness and proper classification;
b. Re-compute the institution's calculations; and
c. Determine whether the required citizenship and ECFMG passing percentage requirements are met.

-OR-

2. If the institution was not subject to the citizenship and ECFMG passing percentage requirement, determine that the school's clinical training program is currently approved by a state of the United States of America.

2. REPORTING

Required Management Assertion

[Institution] complied with the Reporting requirements, [list reports], listed in Section II of the ED SFA Guide.

Compliance Requirements

Institutions receiving SFA funds are required to ensure that reports contain reliable data, and are presented in accordance with the terms of applicable agreements. Reports required for attestation testing:

Pell Reporting

For Award Years prior to and including 1998-1999:
Pell Payment Data is the term used to refer to the electronic or magnetic payment record used to report to ED Pell Payments made to students. Institutions periodically send payment data to ED in a batch on one of three automated systems: Electronic Data Exchange, Recipient Data Exchange or Floppy Disk Data Exchange (Note: 1998-99 is the last year for Floppy Disk Data Exchange). ED processes the Payment Data and returns Processed Payment Data to the institution. Processed Payment Data includes information originally provided by the institution along with ED identification of what category each record was placed: Rejected, Accepted with Assumptions, Duplicates, and Accepted. In testing Pell Payment data, the IPA should be most concerned with the data ED has categorized as accepted or accepted with assumptions. Institutions must report student payment data within 30 calendar days after the school makes a payment or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Institutions may do this by reporting once every 30 calendar days, bi-weekly, weekly or may set up their own system to ensure that changes are reported in a timely manner (34 CFR 690.83).

For Award Years 1999-2000 and after:
The Recipient Financial Management System (RFMS) is the new system for reporting and requesting Pell funds. Institutions submit (in batches) origination records, one or more disbursement records, or special disbursements records for each student who is eligible for Pell whom they have paid or are expecting to pay. Origination, disbursement and special disbursement records contain basically the same payment data as submitted in prior years. Batches are submitted electronically (EDE) or on magnetic tape (RDE). For each batch processed, the institution receives a detailed acknowledgment of the batch and each record processed. Each acknowledgment contains: (1) acceptance status, (2) accepted field values, (3) additional data calculated during processing, and (4) comments to explain the processing results, if necessary.

Origination records may be submitted early in the award year cycle to provide award year level information about students. After RFMS accepts an origination record for a student, the

institution submits disbursement records for each payment to the student, just prior to, or immediately after the disbursement date. Special disbursement records contain the same data as disbursement records but contain additional payment-period specific data. Special disbursement records are required for institutions: (1) on the reimbursement payment method, and/or (2) that cease Pell participation during the award year. Other institutions may, at their option, submit special disbursement records of payment period specific data. Record batches are processed by RFMS and records are either accepted, accepted with corrections, or rejected.

Loan Reporting

- Institutions participating in the Direct Loan Program must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the Loan Origination Center (LOC) within 30 days of disbursement. Each month, the LOC provides institutions with a Direct Loan School Account Statement (DLSAS) data file which consists of a Cash Summary, Cash Detail, and (optional at the request of the school) Loan Detail records. The school is required to reconcile these files to the institution's financial records. Since up to three Direct Loan program years may be open at any given time, schools may receive three DLSAS data files each month. Instructions for obtaining specific borrower information are at the Internet address: http://home.gvi.net/~edoig/sfa.htm. [34 CFR sections 685.102(b), 685.301 and 303 and 309]

  [Both the March 1998 Direct Loan Training Guide and the March 1998 Advanced Direct Loan Training Guide describe the reconciliation process.]

- SSCRs [34 CFR 682.610(c) and 34 CFR 685.309(b)]. This automated process is described in the Student Status Confirmation Report User's Guide. An SSCR Roster File is received the first business day of the month as determined by the SSCR schedule institutions have selected. Institutions are required to provide enrollment update responses to the SSCR Roster File within 30 days of receipt. Institutions send an SSCR Submittal File to National Student Loan Data System (NSLDS). NSLDS returns an Error Notification File that includes a count of accepted records and error records from the SSCR Submittal File. SSCR Error Correction Files are to be submitted with 10 days of receipt of the Error Notification File. The SSCR Error Notification File serves as proof that the institution returned its SSCR to NSLDS. **Note:** Foreign institutions are still performing the SSCR process on a manual (paper) process.

- *Fiscal Operations Report and Application to Participate (FISAP) (ED Form 646-1)* - This electronic report is submitted annually to receive funds for the campus-based programs and is described in the *Instruction Booklet for Fiscal Operations Report and Application to Participate*. The school uses the *Fiscal Operations Report* portion to report its expenditures in the previous award year and the *Application to Participate* portion to apply for the following year. FISAPs are required to be submitted by October 1 following the end of the award year (which is always June 30). For example, by October 1, 1999, the institution should submit its FISAP that includes the *Fiscal Operations Report* for the award year ended June 30, 1999, and the *Application to*

Participate for the 2000 - 2001 award year. Institutions receive an "Edit Report" that allows the institution to make corrections to the FISAP. The "Edit Report" must be resubmitted by mid-December. Key FISAP items are: (FPL, FWS, FSEOG 34 CFR section 673.3)

Part II, Application:

- Section F, Information on enrollment,
- Section G, Assessments and expenditures,
- Section H, Information on eligible aid applicants.

Part III, Federal Perkins Loan Program:

- Section A, Fiscal Report (cumulative),
- Section B, Fund Activity (Annual) During the XXXX-XX Award Year,
- Section C, Cumulative Repayment Information,
- Sections D and E, Cohort Default Rate.

Part IV, Federal Supplemental Educational Opportunity Grant Program and Part V, Federal Work-Study (FWS) Program:

- All sections.

Part VI, Program Summary for Award Year:

- Distribution of Program Recipients and Expenditures by Type of Student

Institutions may receive credit or reimbursement for Pell grant awards that were not previously recognized by ED, i.e., Pell awards that were never reported to ED. Institutions may receive credit or reimbursement if those awards are disclosed in the original timely filed audit report [34 CFR 690.83 and 668.23]. See DCL P-97-2 for instructions (available on the Internet at http://ifap.ed.gov).

Suggested Procedures

a.[3] Review, evaluate, and document procedures for:

- Reporting Pell Grant expenditures;
- Making monthly FDLP DLSAS reconciliations;
- Completing and submitting SSCRs within 30 days; and
- Completing and submitting the FISAP.

[3] Review, evaluate and document means: the IPA must document his/her understanding of the relevant portions of internal control and the assessed level of control risk.

b. Identify, for the audit period, all Pell Payment Data returned to the institution by ED.

1. On a test basis, determine that individual student Pell Payment Data agrees to data in student's records.

2. If available, determine that the Final Student Payment Summary expenditures agree or are reconciled to the GAPS Activity Report and the institution's accounting records.

c. Review the FDLP guidance on the DLSAS for the audit period.

1. Obtain the monthly DLSAS reconciliation reports.

2. On a test basis determine the institution completed the required monthly reconciliations by:

a. Comparing balances on the DLSAS Cash Summary to institutional accounting records.

b. Comparing cash detail information on the DLSAS to internal accounting records and bank statement(s).

3. For unreconciled transactions, determine the institution created reports and queries for:

Booked and unbooked records - to identify records in transit due to timing differences or lack of submission of records.

Disbursement records - to identify records that were not submitted to the Loan Origination Center (LOC) and/or that all disbursement acknowledgment records that were not imported by the institution.

4. Select a sample of borrowers and verify that disbursement dates and amounts in the DLSS are supported by the institution's records. Instructions for obtaining specific borrower information are at the Internet address: http://home.gvi.net/~edoig/sfa.htm.

d. Review the SSCR guidance for the audit period.

1. Obtain a sample of SSCRs and test that the institution:

a. Correctly reported student status, and

b. Returned the SSCR to the appropriate party within 30 days of receipt.

c. Submitted all error corrections within 10 days of receipt.

e. Review the FISAP guidance for the audit period.

1. Obtain the latest FISAP or Edit Report and on a test basis, trace the items listed on Parts II (especially Part II, Sections F, G and H) through VI to the institution's books and records. Additionally, for institutions liquidating the FPL trace the following items:

Part III, Section A
Cash on hand, lines 1.1 and 1.2;
Federal Capital Contributions and Institutional Capital Contributions;
Repayment of Fund Capital to both the Federal Government and to the Institution; and
Service Cancellation (lines 27 to 34 of 1998-99 FISAP).

Part III, Section C - All items.

f. Inquire of management to determine if the institution is entitled to receive credit o. reimbursement for any Pell grant awards that were not previously recognized by ED. If so, report as finding.

1. Documentation supporting the Pell adjustment request must be included in the transmittal of the audit report package. Follow applicable guidance in DCL P-97-2 or its successor.

3. STUDENT ELIGIBILITY

Required Management Assertion

[Institution] complied with the Student Eligibility compliance requirements listed in Section II of the ED SFA Guide.

See Appendix A for the various SFA Programs' minimum and maximum award amounts.

SFA Program Descriptions

NOTICE: Effective October 1, 1998 Section 428(b)(1) and 428H(d) of the HEA, as amended, changed the FFELP and FDLP loan proration method. Appendix A, Tables 2 and 3 identify the loan proration requirements for these programs prior to and after the HEA amendments of 1998. You may also wish to review the two Sections of the HEA as amended for additional guidance.

Federal Pell Grant
Pell grants may **NOT** be awarded to students incarcerated in Federal or state penal institutions.

The Federal Pell Grant program makes grants to eligible undergraduate students and is intended to provide a foundation of Federal financial aid. Federal Pell eligibility/ineligibility must be determined prior to awarding other Federal SFA. Students send applications to a central processor, which provides Student Aid Reports (SARs) to applicants. Institutions use SARs and payment schedules to determine award amounts based on the cost of attendance, Expected Family Contribution (EFC), amount of course work taken in the award year, and length of the student's enrollment during the academic year. ED provides funds for the student directly to the institution. Generally, institutions are responsible for determining, and if necessary, verifying, student eligibility and application data, making accurate award computations and disbursements, collecting overpayments, and submitting accurate and timely reports to ED.

Federal Family Education Loan Program (FFELP)
FFELP loans are intended to pay for the cost of students attending postsecondary educational institutions. Lenders make low interest loans, but institutions are responsible for completing portions of the loan applications, verifying student eligibility, disbursing loan proceeds, filing SSCRs, and refunding money to lenders. Two FFEL programs are:

- Subsidized and unsubsidized Federal Stafford loans, and

- Federal PLUS (FPLUS) loans to parent(s) of dependent students.

Federal Direct Loan Program (FDLP)

Eligible students or their parents may obtain a Federal direct loan to pay for the student's cost of education. ED makes low interest loans to students and/or parents; the loans are disbursed by participating institutions. An institution may simultaneously participate in FDLP and FFELP, but *a student or parent borrower may not borrow under both programs during the same period of enrollment.*

FDLP is a program that changes annually. You should obtain and review the institution's copy of the *Direct Loan School Guide* for the year(s) being audited. Institutions participate under one of three School Origination Options. Key concepts for each option follow.

Functions	Option 1	Option 2	Standard
Create loan origination record	School	School	School
Transmit record to Loan Origination Center (LOC)	School	School	School
Prepare promissory note	School	School	LOC
Obtain completed/signed promissory note from borrower	School	School	LOC
Transmit promissory note to LOC	School	School	N/A
Determine funding needs	LOC	School	LOC
Initiate drawdown of funds	LOC	School	LOC
Receive funds electronically	School	School	School
Receive actual disbursement roster	School	N/A	School
Disburse loan to borrower	School	School	School
Create disbursement record	School	School	School
Transmit disbursement record to LOC	School	School	School
Reconciles monthly DLSAS	School	School	School

The FDLP is an electronic program except for the original promissory note which is mailed to the LOC. Electronic records are created, exported (batched), and transmitted to the LOC and acknowledged from the LOC (imported), a cycle approach. A cycle is not complete until the last activity in it is finished, i.e., an action has been accepted by the LOC and the school's system reflects the acceptance. FDLP has five types of cycles: Loan Origination Records (one for each loan), Promissory Note Manifests, Disbursement Records, Change Records and Reconcilement Records.

For a loan to be "booked" the institution must have electronically transmitted to the LOC and the LOC must have accepted these records:

Loan origination record,

Electronic Promissory Note Manifest (matched with the paper promissory note sent by the school/student), and

First disbursement of loan proceeds.

For subsequent disbursement to "book", those disbursements must be transmitted to and accepted by the LOC. Also, beginning in 1999-2000 academic year the electronic promissory note manifest will be dropped; instead, institutions will mail a paper manifest with promissory notes attached to the LOC. The LOC will acknowledge receipt and acceptance of the promissory note using a new process.

Unique to FDLP :

There is no Direct Loan application, the FAFSA serves as the application.

The borrower's original accepted promissory note will not be at the institution. However, some institutions have opted to keep a copy of the note but the institution is not required to keep a copy.

Federal Perkins Loan

The Federal Perkins Loan program provides loans to students. Institutions maintain a revolving loan fund started with a Federal capital contribution and a matching institutional capital contribution. Principal and interest repayments and reimbursements for canceled loans are deposited into this fund. The institution, in turn, is fully responsible for administering the program (i.e., approving, disbursing and collecting the loans).

Federal Work Study (FWS)

The FWS program provides part-time employment to needy students and is intended to broaden the range of worthwhile job opportunities for students. Students apply directly to and are selected by the institution. The institution determines the award amount, job placement, and pays the student.

Federal Supplemental Educational Opportunity Grant (FSEOG) Program

The FSEOG program provides grants to eligible undergraduate students. Institutions select grant recipients based on need; eligibility extends to students with the lowest EFC's with priority to those who are Pell grant recipients.

Compliance Requirements

Institutions must coordinate the Title IV programs with the other Federal and non-Federal SFA programs it administers and must establish controls to preclude awarding assistance in excess of students' financial need. Program and fiscal records must show cost of attendance, student resources, student eligibility and payment, respectively. Institutions must resolve all conflicting information in a student's files affecting the student's eligibility for Title IV funds. The institution's administrative capability to manage the Title IV programs is determined, in part, by its management of these functions. Resources to assist the IPA in this area are listed on page II-1.

The HEA provides that a needs analysis formula be used to determine eligibility for SFA. A family's financial resources are assessed to determine a reasonable amount that they should contribute to meet the student's education costs, the EFC. The statutory needs analysis formula recognizes that a part of a family's resources must be devoted to taxes, basic living costs, and other unavoidable expenses. The Income Protection Allowance makes allowances for living expenses, i.e., food, housing, transportation, clothing, medical expenses, and, depending upon the state of residence, state and local taxes.

Section 479A of the HEA allows financial aid administrators (FAA) to use professional judgment on a case-by-case basis to increase or decrease one or more of the financial elements used to calculate the EFC. Congress has recognized that a student's or parent's financial situation may have changed or they have other special circumstances. Special circumstances are conditions that differentiate an individual student from a whole class of students. The FAA authority to use professional judgment excludes making general modifications to the statutory EFC formula. The FAA should not replace or modify formula values simply because the FAA believes the values are generally not appropriate or adequate. Individual special circumstances must exist, and be documented, before a FAA may make a professional judgment adjustment.

A grant, loan and/or work-study award may be made only to a student who meets the following requirements:

- Is a regular student of a postsecondary institution [34 CFR 668.32 and 34 CFR 600, Subpart A];
- Is not incarcerated in a Federal or state penal institution [34 CFR 668.32 and DCL P-94-7];
- Is enrolled or accepted for enrollment as at least a half-time student in an eligible program (less than half-time for Pell and campus based is permitted). If the student is not accepted into an eligible program until a remedial program is successfully completed, he/she would not be eligible until accepted into the eligible program [34 CFR 668.32];
- Is not enrolled in either an elementary or secondary school [34 CFR 668.32];

- Is a U.S. citizen or an eligible non-citizen [34 CFR 668.33];
- Has a valid Social Security number (34 CFR 668.36);
- Has financial need (as defined) [34 CFR 668.32];
- Has total financial assistance (both Federal and non-Federal) that does not exceed his/her financial need (34 CFR 673.5 and 673.6);
- Has signed Statements of Educational Purpose and on Overpayments and Defaults [34 CFR 668.32];
- Does not owe a refund on a Title IV grant [34 CFR 668.32];
- Is not in default on a Federally funded or insured student loan received from or for attendance at any institution or in an overpayment status on FPL or a Title IV grant [34 CFR 668.32 and 668.35];
- Is admitted with: (i) a high school diploma, or (ii) its recognized equivalent, or (iii) who is beyond the age of compulsory high school attendance in the state in which the institution is located and has the ability to benefit from the education or training offered [34 CFR 668.32], or (iv) has completed a secondary school education in a home school setting that is treated as a home school or private school under State law [Section 483(b) of the HEA, as amended October 7, 1998 (effective October 1, 1998)];
- Has provided all necessary documentation to satisfy verification (34 CFR 668.54);
- Is maintaining satisfactory progress in his/her educational program [34 CFR 668.32];
- Has a valid financial aid transcript from previously attended institutions (34 CFR 668.19).

(Additional references are 34 CFR 600, 674.9, 675.9, 676.9, 682.201, 690.6, 674.2, 675.2, 676.2, 690.2, 690.75, and 685.200 et. al.)

Student Confirmations

The IPA should consider sending positive confirmations to verify student existence and attendance at the institution. The suggested format of the confirmation follows. The IPA must use professional judgment on: how many attempts must be made to obtain the information, analysis of the responses [including whether the confirmation results require the IPA to report them as matters requiring immediate attention (See pages I-3 and I-4)], and how the responses might impact the overall engagement.

Suggested Confirmation Format:

[Institution] records show that you attended/are attending this school.
Is this correct? ____ Yes ____ No

Explanation _____

_____

[Institution] records show that you attended from _____ (date) to
_____ (date). Is this correct? ____ Yes ____ No

Explanation _____

_____

If you received Federal Student Financial Aid while at [Institution], check all that apply:

___	Pell Grant	___	Federal Family Education Loan
___	Perkins Loan	___	William D. Ford Direct Loan
___	Work Study	___	Supplemental Educational Opportunity Grant

Suggested Procedures

a.[4] Review, evaluate, and document the institution's procedures for determining student eligibility. This must include control procedures for administering ability to benefit tests and the above specific eligibility requirements.

The institution is required to determine whether students who do not have a high school diploma or its recognized equivalent are able to demonstrate that they have the ability to benefit from the training offered. To satisfy the ability to benefit eligibility requirement, the institution must provide (and the student must pass) an independently administered examination approved by ED before receiving Title IV assistance, or the student must be determined as having the ability to benefit from the training offered in accordance with a process as prescribed by the State in which the school is located (34 CFR 668 Subpart J, Sections 141 through 156).

b. 1. Obtain the institution's ability to benefit test(s) to determine the test(s) is included on ED's listing of approved tests. (See Chapter 2 of the Student Financial Aid Handbook.)

2. Obtain and inspect the contract or other agreement for the test administration and determine that the test is independently administered.

[4] Review, evaluate and document means: the IPA must document his/her understanding of the relevant portions of internal control and the assessed level of control risk.

3. If the test is not given at an assessment center, determine if the test administrator forwards test results within two days to the test publisher for scoring.

c. **Based on the institution's withdrawal benchmark and the applicable sampling approach required, as discussed on page I-13, select a random sample and test student files to determine whether students were eligible for SFA. (NOTE: STUDENTS IN THIS SAMPLE MUST BE THE SAME STUDENTS SAMPLED TO TEST DISBURSEMENTS AND RETURNS OF TITLE IV FUNDS.)** Obtain and inspect student academic files, financial aid files and other files to determine if the student:

1. Is a regular student (as defined);

2. Is not incarcerated in a Federal or state penal institution;

3. Is enrolled in an eligible program at least half-time;

4. Is not enrolled in either an elementary or secondary school;

5. Is a U.S. citizen or eligible non-citizen;

6. Has a valid social security number as reported on a valid SAR;

7. Has financial need (as defined);

8. Has total financial assistance that does not exceed the following:
   a. financial need,
   b. grant and loan limits (see Appendix A)

9. Has evidence of a signed FAFSA, Renewal Application, or if filed electronically, evidence of a signed "echo document";

10. Has:
    a. a high school diploma, or
    b. a general equivalency diploma, or
    c. passed the age of compulsory high school attendance in the state in which the school is located and has the ability to benefit as determined by an approved independent ATB test; or
    d. completed a secondary school education in a home school licensed under State law; and

11. If applicable:
    a. has provided all necessary documentation to complete verification;
    b. is maintaining satisfactory progress (as defined);
    c. has all required financial aid transcripts on file; and

d. a professional judgment decision made by the FAA was documented and conforms with the intent of the needs analysis formula.

d. 1. For both samples, send positive confirmations to students to verify that they: (1) attended the institution; and (2) attended during the dates shown in the institution's records. The purpose of this procedure is to determine if the institution's records are accurate. **Note: If confirmations are not sent, document in the working papers reasons for not performing this procedure.** Instead of sending confirmations, practitioners might consider alternative procedures such as: unannounced student and/or instructor interviews; observing student attendance being taken; unannounced comparisons of daily student attendance rosters to the identity of students sitting in the classroom; and determining what internal control exist when SFA staff are receiving Title IV funds.

2. Analyze confirmations. Report as necessary.

4. DISBURSEMENTS

Required Management Assertion

[Institution] complied with the Disbursements compliance requirements listed in Section II of the ED SFA Guide.

Compliance Requirements

Records must reflect all financial transactions and identify all disbursements by SFA program. The institution's management of these functions is an indicator of its capability to administer the SFA programs (34 CFR 668.16).

Payment Periods

Effective July 1, 1997, there is a uniform definition of payment period for the Title IV programs (except for FWS) as follows:

For an eligible program that has academic terms, measures progress in credit hours, and is offered in semesters, trimesters, quarters or other academic terms, the payment period is the semester, trimester, quarter, or other academic term.

For an eligible program that measures progress in credit hours and does not have academic terms or measures progress in clock hours (34 CFR 668.4):

1. For a student enrolled in an eligible program that is one academic year or less in length:

    a. The first payment period is the period of time in which the student completes the first half of the program as measured in credit or clock hours; and

    b. The second payment period is the period of time in which the student completes the second half of the program as measured in credit or clock hours.

2. For a student enrolled in an eligible program that is more than one academic year in length:

    a. For the first academic year and any subsequent full academic year as measured in credit or clock hours:

        - The first payment period is the period of time in which the student completes the first half of the academic year as measured in credit or clock hours; and

        - The second payment period is the period of time in which the student completes the second half of that academic year;

b. For any remaining portion of an eligible program that is more than one-half an academic year but less than a complete academic year:

- The first payment period is the period of time in which a student completes the first half of the remaining portion of the eligible program as measured in credit or clock hours; and
- The second payment period is the period of time in which the student completes the remainder of the eligible program; and
- For any remaining portion of an eligible program that is not more than half an academic year as measured in credit or clock hours, the payment period is the remainder of the eligible program.

There are additional requirements on payment periods. The IPA should familiarize him or herself with the entire payment period definition.

The institution may make direct disbursements to students or credit students' accounts. If the institution credits student accounts, it must either give students receipts or notify students of the payment. Specific program requirements are:

Pell
The determination of the Pell grant amount may require calculation. See Federal Student Financial Aid Handbook Chapter 4 for detailed information on how to make the calculation.

FFELP and FDLP
Minimum of two payment periods for all Federal Stafford and any FDLP, regardless of the loan amount or length of the loan period. No installment may exceed more than one half the loan amount. Effective October 1, 1998 - If a school's three most recent cohort default rates are less than 10 percent OR a school is an eligible home school certifying a loan made to cover the student's cost of attendance in a study abroad program and the school has a cohort default rate of less than 5 percent for the most recent cohort period, the school may direct a lender and/or Direct Loan servicer to disburse FFELP and FDLP loan proceeds in one installment, if the student's loan period is not more than one semester, one trimester, one quarter, or four months. This exemption ends 30 calendar days after the school receives notice form ED that its cohort default rates no longer meet the established cohort thresholds [HEA, Section 428G]. Students attending foreign schools may request loan proceeds be paid directly to them. Loan proceeds may be made in one payment [34 CFR 682.207(b)(v)(D) and (c)(5)].

Federal Perkins and FSEOG
Each payment is the full award divided by the number of payment periods during the academic year. If the total Federal Perkins Loan or FSEOG award for an academic year is less than $501, one payment is permitted (34 CFR 674.16, 676.16).

Credit Balances in Student Accounts

Students may authorize, in writing, institutions to retain credit balances to assist the student in managing those funds (34 CFR 668.165). Without this authorization, the credit balance must be paid to students within 14 days.

Disbursement Criteria

Institutions must:	Pell, FSEOG & Perkins	FFEL/FDLP 1st Time Borrower ♦	FFEL/FDLP Repeat Borrower
Not credit a registered students account more than 10 days before the first day of classes. (34 CFR 668.165)	X		X
Not pay a student directly more than 10 days before the first day of classes. (34 CFR 668.164)	X		X
Not release funds or credit a student account for a student on a leave of absence. (34 CFR 682.604, 685.303)		X	X
Not deliver the first installment until 30 days after the first day of classes. (34 CFR 682.604, 685.303)		X *	
Conduct entrance counseling. (34 CFR 682.604, 685.303)		X	X●
Conduct exit counseling. (34 CFR 682.604, 685.303)		X	X

♦ A student who is enrolled in the first year of an undergraduate program and who has not previously received a FDLP or a FFELP.

● Only for institutions operating under 34 CFR 668 Appendix D or an ED approved default management plan.

* Effective October 1, 1998 - If a school's three most recent cohort default rates are less than 10 percent OR a school is an eligible home school certifying a loan made to cover the student's cost of attendance in a study abroad program and the school has a cohort default rate of less than 5 percent for the most recent cohort period, the school may deliver the first installment of an FFELP or FDLP loan proceeds to a first time FFELP or FDLP borrower prior to 30 calendar days after the student's first day of classes. This exemption ends 30 calendar days after the school receives notice from ED that its cohort default rates no longer meet the established cohort thresholds [HEA, Section 428].

FFELP

Institutions are responsible for completing the school's portion of the loan application which identifies the loan and/or enrollment period and the campus's Office of Postsecondary Education (OPE) identification number. Lenders send or transmit FFELP loan proceeds to the institution. The institution must follow prescribed procedures for processing and applying loan proceeds, which can vary depending on whether the student does or does not enroll, and whether the check is made out to the student only, or co-payable to the borrower and the

institution (34 CFR 682 Subpart F). Loan funds provided by electronic fund transfer or master check may not be requested earlier than: 27 days after the first day of classes of the first payment period for a first-year, first-time borrower; or 13 days before the first day of classes for any subsequent payment period for a first-year, first-time borrower or for any payment period for all other FFEL borrowers (34 CFR sections 682.603, 682.604 and 668.167).

FDLP

The institution must determine that the student maintained continuous eligibility from the beginning of the loan period described in the loan origination record and promissory note. Option 1 and Option 2 institutions may not disburse loan proceeds until they have obtained a legally enforceable promissory note. Option 1 and standard origination institutions may only disburse funds for students listed on the Actual Disbursement Roster. All institutions must submit disbursement records to the loan origination center no later than 30 days following the date of disbursement. Option 1 and Option 2 institutions must also submit loan origination records and promissory notes within 30 days of the initial loan disbursement (34 CFR section 685.303 and 301).

Beginning in academic year 1999-2000, a new master promissory note will be used (except for parent loans) and the loan period will not be printed on the note. The loan period will remain in the Loan Origination Record.

FWS

FWS payments are made as part of the institution's payroll system or on a contract basis with outside entities.

Suggested Procedures

a.[5] Review, evaluate, and document procedures for:

- Completing loan applications;
- Recording all financial transactions;
- Requesting and disbursing funds by payment periods and within required time frames and restrictions;
- Conducting entrance/exit counseling; and
- Identifying credit balances in student accounts.

b. **From the random sample used to test Student Eligibility, determine that payments are properly calculated and disbursed considering the criteria identified in the preceding chart. (NOTE: THE STUDENTS IN THIS SAMPLE MUST BE THE SAME STUDENTS SAMPLED TO TEST ELIGIBILITY AND Returns of Title IV funds.)** Obtain and inspect student academic and financial aid files, student accounts, and attendance records and test to determine:

[5] Review, evaluate and document means: the IPA must document his/her understanding of the relevant portions of internal control and the assessed level of control risk.

1. The institution did NOT:

   a. Credit a registered students account more than 10 days before the first day of classes;

   b. Pay a student directly more than 10 days before the first day of classes;

   c. Release funds or credit a student account for a student on a leave of absence;

   d. Deliver the first installment of a loan until 30 days after the first day of classes;

   e. Make a second and subsequent disbursement until the student completed the prior payment period; and

   f. Request, for FFELP loan proceeds transmitted by EFT or master check, the funds earlier than, as appropriate, the 27 and 13 day restrictions.

2. The institution:

   a. Certified loans and used corresponding OPE identification numbers only for students attending eligible locations;

   b. Has obtained a legally enforceable FDLP promissory note (has, beginning in academic year 1999-2000, the new master promissory note but the loan period will be in the loan origination record);

   c. Disbursed (for FDLP Schools) loan proceeds only for students listed on the Actual Disbursement Roster (Option 1 and standard origination schools); **input actual (not estimated)** disbursement dates in the FDLP software system; submitted initial disbursement records, loan origination records and promissory notes to the LOC within 30 days of the initial disbursement; and all second and subsequent loan disbursement records to the LOC within 30 days of disbursement;

   d. Performed and documented entrance and exit counseling;

   e. Paid credit balances within 14 days; and

   f. If applicable, completed and documented default requirements in an ED approved default management plan or 34 CFR 668 Appendix D.

5. RETURN OF TITLE IV FUNDS

NOTICE: The HEA as amended on October 7, 1998, Section 484B now refers to "refunds" as "Return of Title IV Funds". Institutions may choose to implement those provisions anytime after October 7, 1998. See Section 484B of the HEA for guidance if the institution chose early implementation of the "Return of Title IV Funds" provisions. Also, if this is the case, change the required management assertion to read: [Institution] complied with the Return of Title IV Funds compliance requirements listed in Section 484B of the HEA, as amended.

Required Management Assertion

[Institution] complied with the Refund compliance requirements listed in section II of the ED SFA Guide.

Note: If management has to revise this assertion because the institution has overdue refunds at the end of the fiscal year, the revised assertion must identify the total amount of overdue refunds by these categories: 1-30 days overdue, 31-60 days overdue, 60-90 days overdue, and more than 90 days overdue.

Compliance Requirements

An institution is required to have a fair and equitable refund policy. Refunds must be made of unearned tuition, fees, room, board and other charges to a student who received SFA assistance if a student: does not register for the period of enrollment for which the student has been charged; withdraws, drops out, is expelled, or otherwise fails to complete the period of enrollment.[6] A fair and equitable refund policy provides *at least the largest refund according to*:

- The requirements of applicable State law;
- The specific refund requirements established by the institution's nationally recognized accrediting agency if those standards are approved by ED; or
- A pro rata refund calculation for any student attending the institution for the first time, and whose withdrawal date is on or before the 60% point of the enrollment period.

When the pro rata refund calculation does not apply and no standards for state or accrediting refund calculations exist, institutions are required to use the larger of:

- The specific refund standards in 34 CFR 668.22(d), or
- The institution's policy.

[6] For refund purposes, SFA assistance excludes FWS but includes Federal PLUS loans received on the student's behalf.

When calculating refunds, an institution may not include any unpaid amount of a "scheduled cash payment" in determining the amount that the institution may retain for institutional charges. Thus, the institution must subtract unpaid "scheduled cash payments" from the amount it retains (34 CFR 668.22(g) and Dear Colleague Letter GEN 95-22 for certain exceptions).

Refunds of $25 or less may not have to be repaid. A refund returned to an SFA loan program would reduce the amount of the loan that a student would have to repay. A school may retain a refund of $25 or less due to an SFA loan program only if the school has written authorization from the student in the enrollment agreement to do so. The enrollment agreement must explain clearly that the student is permitting the school to keep the funds, rather than having the funds used to reduce the student's loan debt, should the student withdraw (34 CFR section 668.22[(g)(3)(iii)(B)].

Foreign Schools

Foreign schools are required to follow criteria for determining the date of a student's withdrawal (34 CFR 682.605) and payment of a refund to a lender (34 CFR 682.607) unless the Secretary states in official publications or documents that those schools need not comply with those provisions [34 CFR 682.611]. 34 CFR 682.605 and 607 refer to 34 CFR 668.22 regarding withdrawal dates and refund sequence. Some foreign institutions might not have an institutional refund policy or accrediting agency refund policy.

Refund Sequence

SFA refunds must be returned in this sequence [34 CFR 668.22]:

1. Unsubsidized Federal Stafford
2. Subsidized Federal Stafford
3. Federal PLUS
4 Unsubsidized Federal Direct Stafford Loan
5. Subsidized Federal Direct Stafford Loan
6. Federal Direct PLUS Loan
7. Federal Perkins Loan
8. Pell
9. FSEOG
10. Other Title IV Assistance
11. Other Assistance
12. To the student

Withdrawals

The withdrawal date is the earlier of:

> The date that the student notifies an institution of the student's withdrawal, or the date of withdrawal specified by the student, whichever is later; or
>
> The last recorded date of class attendance by the student, as documented by the institution, if the student drops out of the institution without notifying the institution (does not withdraw officially).

Time frame for Return of Federal Funds

34 CFR 668.22 specifies the maximum time frame for the institution to return the SFA portion of a refund to program accounts. For the Pell, FDLP, FSEOG, and Federal Perkins programs, an institution must return the Federal portion within 30 calendar days of the date the student officially withdraws or the date the school discovers that the student has unofficially withdrawn.

If the student received a FFEL, an institution must calculate the refund due to a student and return to the lender any portion of the refund allocated to the loan programs within 60 calendar days (34 CFR 682.607, 685.305) of the earliest of these dates:

- The date that the student notifies the institution of his or her withdrawal or the date of withdrawal specified by the student, whichever is later;
- The date on which the institution makes its determination that the student has withdrawn; or
- The expiration of the enrollment period for which the loan was made.

Refunds paid by check are considered paid on the date the check is honored by the institution's bank.

Leave of Absence Withdrawals

If a student fails to return from an approved leave of absence, the student is considered to have withdrawn as of the first day of the leave of absence. An institution has 30 days after the last day of the approved leave of absence to calculate a refund and return funds to the lender.

Adjustments to Pell

Refunds to the Pell Grant program may cause adjustments to a student's Pell payment data. Pell payment data adjustments must be made within 30 calendar days after the institution becomes aware of the need to make an adjustment (34 CFR 690.83).

Suggested Procedures

a.[7] Review, evaluate, and document procedures for:

- Identifying students who either were or should have been withdrawn, dropped, terminated or who are on a leave of absence;
- Determining which refund method produces the largest refund and assuring pro rata refund calculations are used for all first time students who withdraw on or before 60% of the course was completed;
- Assuring refunds are paid using the proper refund sequence; and
- Paying refunds within due dates.

b. Obtain and become familiar with:

- Dear Colleague Letter GEN-95-22;
- State refund requirements;
- All applicable accrediting agency refund requirements; and
- Federal Student Financial Aid Handbook Chapter 3.

c. **From the random samples used to test Student Eligibility and Disbursements determine that refunds were properly calculated and disbursed within the applicable refund due date.** Obtain and inspect student academic and financial aid files, student accounts, attendance records, and canceled checks or other financial records to conduct the following suggested procedures.

1. Using academic files, financial aid files and attendance records determine the enrollment status (i.e. enrolled, graduated, on a leave of absence, withdrawn, dropped, or terminated) for the random samples were correct.

2. For those students identified as requiring a refund or for whom a refund has been made:

   a. Calculate/recalculate the refund and test that the largest refund calculation (as defined) was paid, assuring a pro rata refund calculation was made for all first time students at the institution who withdrew on or before the 60% point of the enrollment period;

[7] Review, evaluate and document means: the IPA must document his/her understanding of the relevant portions of internal control and the assessed level of control risk.

b. Compare refund payments to the refund sequence above;

c. Determine refunds were paid within due dates; and

d. Determine refunds to lenders are supported by a canceled check or other document.

e. For refunds to the Pell Grant program, determine that appropriate adjustments, if necessary, were made within 30 days of the refund to the student's Pell Payment data.

6. GAPS AND CASH MANAGEMENT

Required Management Assertion

[Institution] complied with the Grant Administration and Payment System (GAPS) and Cash Management compliance requirements listed in Section II of the ED SFA guide.

Compliance Requirements

GAPS is the primary mechanism used to disburse SFA funds to most institutions. Grantees request funds by either creating a payment request using the GAPS External Access System through the Internet or by calling the GAPS Payee Hotline. When using the GAPS External Access System, grantees enter payment requests directly into GAPS. When requesting funds under the GAPS Payee Hotline, grantees provide information to the hotline operator and ED staff enters data into GAPS. GAPS maintains and provides cumulative data on net draws and the available balance for each award. When a grantee draws down funds, ED considers those funds to have been expended by the grantee for the award(s) identified and cumulative drawdown amounts in GAPS should accurately reflect the grantee's actual disbursement of funds by award. Grantees can redistribute drawn amounts between grant awards by making adjustments in GAPS to reflect actual disbursements for each award. For example, if a grantee draws too much under one award, it can enter an adjustment in GAPS to reallocate the excess amount to other awards for which there were immediate cash needs, as long as the net amount of the adjustments is zero. To assist grantees in reconciling the internal accounting records with GAPs, grantees can use the GAPS External Access System (http://gapsweb.ed.gov) to obtain a GAPS Activity Report that shows cumulative and detailed information for each award. The GAPS Activity Report can be created and viewed on-line and a hard copy may be printed as well. See the May 1998 *Payee Guide for the Grant Administration and Payment System (GAPS)* for detailed instructions. **IPAs should also review current GAPS guidance on the Internet at http://gapsweb.ed.gov**

Cash controls should provide that cash on hand does not exceed the immediate disbursement needs for the SFA programs, three working days (34 CFR 668.166). Therefore, the three working days start on the date a drawdown is entered into GAPS.

Federal funds received under any Title IV HEA program, except those funds received for administrative cost allowance, are held in trust for the intended student beneficiaries. Institutions may not use or hypothecate Title IV program funds for any other purpose (34 CFR 668.18, 668.161).

Excess cash tolerances are allowed but must be eliminated within the next seven working days (34 CFR 668.166(b)). Interest earnings, up to $250 per year (excluding Federal Perkins Loan), may be retained by the institution. All earnings in excess of $250 must be returned annually to ED (34 CFR 668.164).

Suggested Procedures

a.[8] Review, evaluate, and document the institution's procedures for forecasting cash needs, entering drawdown requests into GAPS, and disbursing SFA funds within 3 working days.

b. Obtain and inspect bank statements for Federal accounts.

1. Determine interest earnings in excess of $250 were returned to ED.

2. Determine the propriety of debit and credit memorandum entries.

c. Obtain the GAPS Activity Report for the audit period (Activity Report Screen contains a date range which allows a start and end date as part of search-select criteria).

1. Determine that net draws are traceable to the accounting records.

2. For each grant listed in the GAPS Activity Report, access and print the Detail Table.

a. Test a random sample of drawdowns to determine SFA funds were disbursed within three working days;

b. For funds not spent within 3 working days, if applicable, determine that the institution's excess cash tolerances were not exceeded and excess cash tolerances were eliminated in the next seven days.

d. Test SFA disbursements for propriety to ensure SFA funds were not used for investments, or for institutional/personal financing activities.

[8] Review, evaluate and document means: the IPA must document his/her understanding of the relevant portions of internal control and the assessed level of control risk.

7. PERKINS LOAN

Required Management Assertion

[Institution] complied with the Perkins Collections, Due Diligence, NSLDS, and, if applicable, Liquidation compliance requirements listed in section II of the ED SFA Guide.

Compliance Requirements

SFA compliance requirements concerning Perkins Collections and Due Diligence are contained in 34 CFR 674. The institution must exercise due care and diligence in the collection of loans. The regulations covering the deferment of repayments of Perkins Loans are shown in 34 CFR 674.34 and .35. In addition, the deferment procedures are contained in 34 CFR 674.38. Due diligence requirements are contained in 34 CFR 674 Subpart C.

Deferment of Payments

Payments on Federal Perkins Loans may be deferred during particular periods based on the date of the loan. The borrower need not repay principal, and interest does not accrue, except that interest does accrue during a hardship deferment for loans made before July 1, 1993. Deferments may only be granted when requested in writing and submitted to the school by its due date and with required documentation. A borrower is entitled to a 6-month grace period (post-deferment grace period) after each deferment and neither the deferment nor the grace period is included in determining the 10-year repayment period. Below is information on three types of deferments, you should review Chapter Six of *The Federal Student Financial Aid Handbook* applicable to the audit period for additional information concerning deferments.

In-School Deferment

Deferments may be given to borrowers who are regular students enrolled at least half-time in an eligible institution of higher education or a comparable institution outside the U.S. approved by ED for this purpose. It is not a requirement that the school participate in the Federal Perkins Loan Program in order for the borrower to qualify for an in-school deferment. For loans made on or after July, 1993, borrowers who are in approved graduate fellowship programs, rehabilitation training programs for disabled individuals, or are engaged in graduate or post-graduate fellowship-supported study also qualify for an in-school deferment. However, deferments may not be granted to a borrower while serving in a medical internship or residency program, except for a residency program in dentistry.

Economic Hardship Deferment

For Federal Perkins loans made on or after July 1, 1993, a deferment of up to three years may be granted for economic hardship. To qualify, the borrower must be seeking and unable to find full-time employment or be suffering an economic hardship. To qualify as suffering economic hardship, the borrower must provide documentation satisfactory to the institution showing economic hardship as described in 34 CFR 674.34.

Three Year Deferment

A borrower of a Federal Perkins Loan made before July 1, 1993, may defer repayment for up to three years and interest will not accrue while the borrower is:

a member of the U.S. Army, Navy, Air Force, Marines, or coast guard;

a member of the National Guard or the reserves serving a period of full-time active duty in the Armed Forces;

an officer in the Commissioned Corps of the U.S. Public Health Service;

on full-time active duty as a member of the National Oceanic and Atmospheric Administration Corps;

a Peace Corps volunteer;

a volunteer under Title I-Part A of the Domestic Service Act of 1973 (ACTION);

a full-time volunteer in service for a tax-exempt organization that ED has determined is comparable to Peace Corps or ACTION service; or

temporarily totally disabled or unable to work because he or she must care for a *spouse or other dependent* who is so disabled.

Cancellation

A borrower may have all or part of his or her loan (including interest) canceled for engaging in public service such as teaching or service in programs such as Head Start, Peace Corps, and ACTION, or service in the military. The borrower must apply for cancellation of the loan by obtaining the appropriate cancellation form from the business or student loan office of the school that made the loan or its servicer. The form and any required documentation must be submitted on a timely basis. The conditions which apply and the loan amounts which may be canceled vary depending on the date of the loan and the type for service performed to qualify for the cancellation. The auditor should review Chapter Six of *The Student Financial Aid Handbook* applicable to the audit period to determine the specific criteria which apply.

Billing and Collections

Billing refers to that series of actions the school routinely performs to notify borrowers of payments due, remind them of overdue payments, and demand payment of overdue amounts. Generally, repayments begin after a grace period of either six or nine months. An "initial grace period" of nine months immediately follows a period of enrollment and immediately precedes the date repayment is required to begin for the first time. A borrower who returns to school on at least a half-time basis prior to completion of the initial grace period is entitled to a full initial grace period. The school must contact the borrower during both initial and post-

deferment grace periods to remind him or her when repayment will begin. If a payment is overdue and the school has not received a request for deferment, postponement, or cancellation, the school must send the borrower an overdue notice. A first notice must be sent within 15 days after the due date, a second notice within 30 days after the first notice and a final demand sent within 15 days after the second notice. If the borrower does not respond to the final demand letter within 30 days, the school must try to make contact by telephone before beginning collection procedures.

Collection procedures are the more intensive efforts a school must make when borrowers have not responded satisfactorily to billing procedures and are considered seriously in default. The first step a school must take in the collections process is to report a defaulted loan account to a national credit bureau organization with which ED has an agreement. The second step the school must take is to use its own personnel to collect or hire a collection firm. If efforts cannot convert the account to regular repayment status within 12 months (or the borrower does not qualify for deferment, postponement, or cancellation), the school must either litigate or make a second effort to collect. The second effort to collect requires that:

If the school first attempted to collect by using its own personnel, it must refer the account to a collection firm, unless state law prohibits it; or

If the school first used a collection firm, it must use a different firm or its own personnel, or submit the account to ED for assignment.

If a collection firm (retained by a school as part of its second effort to collect) cannot place an account into regular repayment status by the end of 12 months (or if the borrower does not qualify for deferment, postponement, or cancellation), the firm must return the account to the school.

The school must continue to make annual attempts to collect the account until:

the loan is recovered through litigation;

the account is assigned to ED; or

the loan is written off.

The school must assess all reasonable collection costs against the borrower, without regard to the provisions of state law. The school determines what collection costs are "reasonable," as long as they are based on actual costs the school incurs for the particular borrower, or on average costs incurred in collecting loans in similar stages of default. The school must be able to document the basis for the costs assessed. Schools may waive all or a portion of collection costs or make other compromises or consolidations based on a number of factors. The auditor should review Chapter Six of *The Student Financial Aid Handbook* applicable to the audit period to determine the conditions which apply.

The school may use a contractor for billing or collection, but the school is still responsible for complying with Subpart C regulations about those activities. For example, the school is still responsible for deciding whether to sue a borrower in default. A school may not use a billing service or a collection firm that owns or controls the other, or are owned or controlled by the same corporation, partnership, association, or individual.

NSLDS Data Quality

The National Student Loan Data System (NSLDS) is a national database of information about loans and other financial aid awarded to students under Title IV. Institutions enter data in NSLDS pertaining to FPL loans (see Dear Colleague Letter CB-94-20). Screen RC83, Loan History is accessible from the NSLDS Main Menu. The individual student identifier is the social security number (20 USC 1092b).

Liquidation (Ending Participation in Perkins Program)

Institutions may decide to end participation in the FPL Program by checking the "yes" box in Part II, Section D of the FISAP or by other written notification to ED. Instructions for liquidating the Perkins portfolio are found in DCL CB-98-11 and are clarified by this audit guidance. Institutions must continue to complete and submit the Perkins Loan Report portion of the FISAP until a final report is submitted reflecting that all outstanding loans have either been assigned to ED or purchased by the institution, and the federal share of cash has been returned to ED. However, if the institution is continuing participation in other Title IV programs, the audit guidance here supercedes audit guidance contained in DCL CB-98-11. At least 90 days prior to submitting loans to ED for assignment, institutions must notify borrowers and servicer(s) of their intent to liquidate the loan portfolio. FPL loans are assigned to ED following the instructions in CB-98-13 and CB-98-14. Loans accepted for assignment by ED must be coded "AE" in NSLDS. For each loan in repayment status that is accepted for assignment by ED, the institution must notify the borrower to make checks payable to the U. S. Department of Education. FPL loans rejected for assignment by ED may be "cured" by following guidance in the aforementioned DCLs. Institutions must purchase loans deemed unenforceable by ED and code those loans as "CA" in NSLDS. Institutions must calculate and submit to ED a final capital distribution amount which must be approved by ED prior to a final distribution of FPL cash.

Suggested Procedures

a.[9] Review, evaluate, and document the institution's methodologies for determining compliance with Perkins collections and due diligence requirements, entering Perkins Loan data and grant overpayments into NSLDS, and, if applicable, administering the Perkins default management plan and/or liquidation procedures.

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[9] Review, evaluate and document means: the IPA must document his/her understanding of the relevant portions of internal control and the assessed level of control risk.

b. Select a sample of Federal Perkins Loans which are representative of the loans in the school's portfolio and test their compliance with applicable SFA requirements. For example, for loans that have entered a grace period or repayment, determine that the proper number of contacts were made and that billing notices were appropriately given. Be aware that the grace periods and billing periods are measured in days not months or portions thereof. Ascertain that proper documentation exists for any deferments or cancellations. After the institution has accessed NSLDS for the auditor, review the NSLDS Loan History (Screen RC83) for sampled students and verify that the NSLDS data agrees with the institution's records (Note: coordinate this with suggested procedure c.3.b. below, if applicable, and suggested procedure 'g' in administrative capability, page II-39).

c. For institutions liquidating the FPL portfolio, determine that:

1. At least 90 days before starting the loan assignment process, the institution notified borrowers and loan servicers of their intention to liquidate and assign all FPL loans to ED.

2. For loans accepted for assignment by ED, the institution:

   a. notified the borrower to make all future payments to ED at the address stated in CB-98-11; and

   b. established cash controls to assure that all payments on loans assigned to ED were forwarded to ED.

3. For loans rejected by ED and purchased by the institution, from a sample of those loans:

   a. the amounts paid by the institution into the FPL fund were accurate; and

   b. their status in NSLDS is "CA".

4. The amounts used in the final capital distribution formula are traceable to the institution's records.

8. ADMINISTRATIVE CAPABILITY

Required Management Assertion

[Institution] complied with the administrative capability compliance requirements listed in Section II of the ED SFA guide.

Compliance Requirements

To participate in the Title IV programs, an institution agrees to perform certain functions including:

- Providing, for the FDLP, the implementation of a quality assurance system to ensure that the institution is complying with FDLP requirements [34 CFR 685.300(b)(9)].

- Establishing, publishing and applying reasonable standards for measuring students satisfactory progress in their program of study [34 CFR 668.15(e)].

- Notifying the Secretary and the accrediting agency within at least 10 days of any change in ownership, if the change results in a change of control as defined in 34 CFR 600.30 and 600.31.

- Notifying the ED Office of Inspector General for Investigations of any credible information indicating criminal misconduct or fraud by students and any fraud, misrepresentation, conversion or breach of fiduciary responsibility, or other illegal conduct by individuals or companies involved in the administration of the Title IV programs.

- Participating in electronic processes that ED provides at no substantial charge to the institution.

- Entering grant overpayment information into NSLDS. NSLDS is a national database of information about loans and other financial aid awarded to students under Title IV. Institutions must enter data into NSLDS pertaining to grant overpayments (see DCL CB-94-20). Screen RC0L, Overpayment Summary, is accessible from the NSLDS Main Menu. The individual student identifier is the social security number (20 USC 1092b).

- Publishing and distributing to required parties, an annual campus crime report that contains all the required information at 34 CFR 668.47.

- Preparing and disseminating to all enrolled students, or prospective students upon request, by mailing or appropriate publications, annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students. A similar annual published report on student athletes is also required(34 CFR 668.41, 668.46 and 668.49).

- Preparing an annual report, for institutions offering "athletically related student aid", of a compilation of revenues and expenses of intercollegiate athletic activities by specific sports and upon request, must make the report available to students, potential students and the public (34 CFR 668.14).

Suggested Procedures

a.[10] Review, evaluate, and document the institution's methodologies for determining compliance with the administrative capability requirements listed in Part II of the SFA Audit Guide.

a. If applicable, determine that a FDLP quality assurance program has been implemented.

b. Determine that the institution has established, published and is applying the required minimum standards for measuring student satisfactory progress.

d. If applicable, obtain and inspect the institution's notification to ED and its accrediting agency of any change in ownership, and determine that both were notified within 10 days.

e. Make inquires of institution's management and obtain, as part of the management representation, written representation that the institution has reported to ED OIG for Investigations all known criminal misconduct involving Title IV funds by any student, employee, third-party servicer, or other agent of the institution involved in the administration of the institution's Title IV programs.

f. Review, evaluate and determine that the institution has adequate controls over electronic processing. At a minimum this should include evaluating: operating procedures, processing schedules, physical and internal computer security (location and accessability to terminals, controls over passwords, etc), reliability of computer processed data, and disaster recovery plans (minimum to include computer backup schedules, off-site storage of back-up files, and viability of back-up files).

g. From the school's records, select a sample of students who were identified as having grant overpayments. After the institution has accessed NSLDS for the auditor, review the NSLDS Overpayment Summary (Screen RC0L) for sampled students and determine that the NSLDS agrees with the institution's records (Note: coordinate this procedure with suggested procedure b under Perkins Loan, page II-37).

h. Obtain and inspect the annual security report. Ascertain the report contains all information required by 34 CFR 668.47 and was distributed as required.

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[10] Review, evaluate and document means: the IPA must document his/her understanding of the relevant portions of internal control and the assessed level of control risk.

i. Ascertain that annual information regarding completion or graduation rates and transfer-out rates of certificate or degree-seeking full-time undergraduate students was disseminated to all enrolled students or, as requested, to prospective students. Ascertain that the information on student athletes was published in an annual report. On a test basis, trace and verify the information.

j. If applicable, obtain and review the annual report regarding intercollegiate athletics. Verify the report revenues and expenses include all applicable sport activities and that the compilation report is available upon request by students, prospective students and the public.

9. CLOSE OUT (IF APPLICABLE)

If an institution loses its eligibility, ceases to provide educational instruction, or discontinues participation in all Title IV program during the award year, the following additional compliance requirements must be tested. Further, other compliance requirements in this audit guide must be tested.

Required Management Assertion

[Institution] complied with Close Out compliance requirements listed in section II of the ED SFA Guide.

Compliance Requirements

When an institution loses its eligibility, ceases to provide educational instruction, or otherwise discontinues participation in all Title IV programs, the institution must (34 CFR 668.26):

- Immediately notify ED of that fact;
- Inform ED of the arrangements it has made for the proper retention and storage, for a minimum of three years, of all records concerning the administration of the Title IV programs; and
- If applicable, inform ED of how it will provide for the collection of any outstanding Title IV loans.

NOTE: This section does not apply when the institution ceases participation in a Title IV program but continues participation in other Title IV programs.

Suggested Procedures

a. Review 34 CFR 668.26 for background purposes.

b. Obtain and inspect the institution's copy of its notification to ED of its loss of eligibility, ceased operations, or discontinued Title IV participation.

c. Obtain and inspect the existence of a contract or other arrangement for:

   1. Storage of institution records for the next three years, report the storage location of SFA records on the AIS (Example C); and

   2. If applicable, collection of any outstanding Title IV loans or assignment of all outstanding Title IV loans to ED (including loans held by servicers or loan collection agencies).

d. 1. Contact the following to determine the existence of any sureties and each status:

Regular Mail:

Performance Improvement and Procedures Division
U. S. Department of Education
400 Maryland Avenue, SW
ROB-3, Room 3682
Washington, DC 20202-5300

Tel. (202) 401-7473
Fax: (202) 708-6730

Overnight Delivery:

Performance Improvement and Procedures Division
U. S. Department of Education
7th & D St., SW
GSA/NCR, ROB-3, Room 3682
Washington, DC 20407

2. Report the existence of any unexercised sureties on the AIS (Example C).

e. Obtain and inspect all bank statements to identify:

1. Any large or unusual transactions for propriety and explanation; and

2. Open bank accounts to be reported on the AIS (Example C).

SECTION III

PLANNING AND OTHER CONSIDERATIONS FOR AUDITS OF INSTITUTION SERVICERS

PURPOSE OF THIS SECTION

This section is to assist independent public accountants (IPAs) engaged to perform compliance attestation engagements of third-party service organizations [servicer(s)] when the functions performed are applicable to the administration of the U.S. Department of Education (ED) Federal Student Financial Assistance (SFA) Programs.

To the extent that an institution contracts with a servicer to administer any aspect of the SFA Programs, the applicable compliance requirements and guidance contained in other Sections of the Guide also apply to that servicer. This section must be used by the IPA to opine on the servicer's compliance with the SFA programs for any institution servicer participating in or administering any aspect of the SFA programs, except for institution servicers which obtain an audit in accordance with the Single Audit Act, OMB Circular A-133 or its predecessors. However, this Guide must be used if a program specific audit is being performed to satisfy the single audit requirements.

This guidance is not intended to be a complete manual of procedures, nor is it intended to supplant the IPA's judgment of the work required. Suggested procedures described may not cover all circumstances or conditions encountered. The IPA should use professional judgment and due care to tailor the procedures so that the compliance attestation engagement objectives are achieved. However, all applicable management assertions contained in this Guide must be addressed by the IPA. The IPA should contact the Office of Inspector General Nonfederal Audits Advisory and Assistance Team for technical assistance related to performing the engagement. (See Appendix C)

REQUIREMENTS AND STANDARDS FOR SERVICER ATTESTATION ENGAGEMENTS

Annual Compliance Audit

Section 487(c)(C)(I) of the Higher Education Act of 1965, as amended, (HEA) requires annual compliance audits of servicers with regard to any contract with an eligible institution, guaranty agency or lender for administering or servicing any aspect of the student financial assistance (SFA) programs. The HEA requires that these audits be performed in accordance with the U.S. General Accounting Office's *Government Auditing Standards*, issued by the Comptroller General of the United States. This Audit Guide provides guidance in satisfying the annual compliance audit requirement by performing an examination level attestation engagement of compliance and internal control over compliance under AICPA Statements on Standards for Attestation Engagements (SSAE) No. 3, as amended by SSAE #9, Compliance Attestation.

Part 668.23 of Title 34 of the Code of Federal Regulations (CFR) requires that all servicers have an annual compliance audit performed of the servicer's administration of the participation in the Title IV, HEA programs of each institution with which the servicer has a contract, UNLESS:

--the servicer contracts with only one participating institution; and
--the audit of that institution's participation involves every aspect of the servicer's administration of that Title IV program.

SFA compliance attestation objectives are to determine and report whether the servicer management's assertions relative to compliance and internal control over compliance with specified compliance requirements in Section IV of this guide are fairly stated in all material respects (institutional eligibility and participation, reporting, student eligibility, disbursements, refunds, GAPS and cash management, Perkins Loan, administrative capability, close out examinations, servicer eligibility, and servicer systems and internal control).

ED in part meets its stewardship responsibilities by acting upon noncompliance and internal control weakness noted in the IPA's reports. Therefore, IPA reports must contain adequate information to give reported matters perspective and to allow ED to take necessary corrective action.

These annual compliance audit requirements are considered satisfied by an audit conducted, where applicable, in accordance with the Single Audit Act, as implemented in Office of Management and Budget (OMB) Circular A-133.

Standards for Servicer Attestation Engagements

The servicer's compliance attestation engagement shall be conducted by an independent auditor in accordance with *GAS*. ***This Guide requires an examination-level attestation engagement relative to a servicer management's assertions about certain compliance aspects related to SFA program participation as identified in Section IV. Therefore, in addition to applicable standards contained in the GAS, the Statements on Standards for Attestation Engagements (SSAEs), issued by the American Institute of Certified Public Accountants (AICPA) also applies.*** An IPA engaged to perform a servicer compliance attestation engagement should also refer to Section I of this Guide for guidance concerning matters requiring immediate action, auditor qualifications, engagement letters, follow-up on prior audit findings, consideration of internal control, sampling results, compliance attestation reporting, corrective action plan, quality control reviews, and future revisions as that guidance is not repeated in this section.

ENGAGEMENT PERIODS AND REPORT DUE DATES

A servicer's engagement must cover the servicer's activities for the fiscal year. An institution's servicer shall submit its engagement report to ED within six months of the end of the servicer's fiscal year or, if applicable, in accordance with deadlines established in OMB Circular A-133.

A servicer's failure to meet report due dates may result in administrative sanctions described in 34 CFR 668, Subpart G.

SERVICER'S REPORTING ENTITY

Contracting With More Than One Institution, Lender or Guaranty Agency

A servicer that contracts with more than one participating institution may submit a single compliance attestation report that covers the applicable compliance requirements in Section IV of this Guide relating to the servicer's administration of the participation in the Title IV, HEA programs for each institution with which the servicer contracts.

A servicer that contracts with both an institution and a lender **may not** submit a single compliance attestation report to cover the servicer's participation in all of the Title IV, HEA programs. The servicer reports for lenders or guaranty agencies must be separate from the servicer audits for institutions because the services provided to each are markedly different.

SERVICER RESPONSIBILITIES

The servicer's management should assess the services it provides and whether it can make all or part of the applicable assertions in Section IV of this Guide. Scope limitations because of a servicer management's refusal to provide the applicable assertions may result in the servicer being subject to administrative actions listed in 34 CFR 668 Subpart G.

Servicer Corrective Action Plan

See Section I, page I-6.

PRACTITIONER RESPONSIBILITIES

Engagement and Management Representations

The compliance attestation engagement must be performed as an examination-level engagement in accordance with SSAE #3, as amended by SSAE #9, and *GAS*. The IPA is required to obtain written assertions from management as part of a compliance attestation engagement performed in accordance with SSAE #3, as amended by SSAE #9. The nature of the written management assertions made by the servicer's management and the scope of the engagement may vary depending on the extent an institution has contracted with the servicer to perform certain compliance functions. Such assertions should be obtained from management in a letter of representation to the IPA. The letter of assertions should identify the services provided for which the servicer is responsible. The matrix in Example C-1 must be prepared and included as part of the reporting package.

All applicable management assertions contained in Section IV of the Guide must be addressed by the IPA. The IPA should also obtain all the representation's from management required by SSAE #3, as amended by SSAE #9, paragraphs 9 and 67 [1] (Codified at AT §500.72).

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[1] Quality Control Reviews conducted by the Office of Inspector General have identified a significant number of engagements not containing the required written representations.

Paragraph 68 discusses the IPA's responsibility when management refuses to furnish all appropriate written representations.

COMPLIANCE ATTESTATION ENGAGEMENTS

Purpose and Objective of Servicer Attestation Engagements

The overall purpose of the servicer engagements is to provide ED assurance that the servicer has complied with and has effective internal control over the compliance requirements listed in Section IV of this Guide applicable to the servicer's administration of the participation in the SFA programs.

Consideration of the Servicer's Internal control

See Section I, page I-12.

Materiality

See Section I, page I-13. Also, this Guide requires that **all** instances of noncompliance pertaining to servicers be reported as a finding in the Schedule of Findings and Questioned Costs (see **Reporting Noncompliance** below). As discussed in SSAE No. 3, as amended by SSAE #9, paragraphs 33 and 34, this should not change the practitioner's judgements about materiality in planning and performing the engagement or in forming an opinion on the servicer management's assertions. Practitioner's should also refer to AT 100.54 for additional guidance.

Sampling Methodology

This guide requires sampling methodologies be used to test the required management assertions in Section IV for those assertions which apply to the servicer. **The sample(s) must be taken randomly.** In selecting a sample, consideration must be given to the systems used to provide services and the sample(s) must also include transactions that flow through all systems used by the servicer. The IPA must use professional judgment in determining the sample universes and sizes and that the sample relates to an audit objective. For example, if a servicer provides some clients with assistance in obtaining and maintaining their institutional eligibility, the IPA may consider taking a sample of the clients for whom this service is provided and evaluate compliance with Title IV regulations.

Sample Results

See Section I, page I-15.

Reporting Noncompliance

See Section I, page I-15.

If the report discloses material noncompliance (either in the servicer management's assertions or the IPA's report) or if immaterial noncompliance was identified by the servicer or the IPA during the engagement, the report or a separate communication must be sent to each institution serviced

disclosing the instances of noncompliance applicable to the institution, and of management's plans to correct the noncompliance.

Compliance Attestation Reporting

See Section I, page I-7 for addresses.

The servicer's report package must include the following:

1. Report Package Cover Page (Example B-1);

2. Servicer Information Sheet (Example C-1);

3. A report on the Servicer's compliance with specified requirements applicable to SFA programs (Example D);

4. If applicable, a report on internal control over compliance of any reportable conditions or material weaknesses noted in accordance with SSAE #3, as amended by SSAE #9, paragraph 44 (Example D-1);

5. Schedule of Findings and Questioned Costs (Example F);

6. IPA's comments on resolution matters of prior audit findings (Example G);

7. Servicer's Corrective Action Plan (CAP) (Example H);

8. If a separate report on illegal acts which could result in criminal prosecution was submitted in accordance with the instructions in Section I of this guide, it should also be included as part of the reporting package; and

9. If separate communications are sent to each institution disclosing the impact of the findings on the institutions, those communications should also be included as part of the reporting package.

SECTION IV

REQUIRED SERVICER MANAGEMENT ASSERTIONS, COMPLIANCE REQUIREMENTS, AND SUGGESTED PROCEDURES

INTRODUCTION

This section:

1. Sets forth the minimum standards, which are the subject of management's written compliance assertions;

2. Briefly describes the related compliance requirements; and

3. Provides guidance on the general approach the IPA should consider in designing and carrying out procedures in the examination of management's written assertions.

As discussed in Sections I and III of the Guide, the suggested procedures in Sections II and IV of the Guide are not intended to be a complete set of procedures to satisfy the engagement objectives, nor are they intended to supplant the IPA's judgment about the testing necessary for the IPA to report on management's assertions. Also, management's assertions may need to be modified based on the services performed.

To perform the engagement, the IPA should obtain, read, and/or have available all the reference materials listed on pages II-1 and II-2.

1. INSTITUTIONAL ELIGIBILITY AND PARTICIPATION

Required Management Assertion

[Servicer] complied with the Institutional Eligibility and Participation compliance requirements listed in Section II of the ED SFA Guide as applicable to our clients.

Compliance Requirements and Suggested Procedures

Servicers may contract to assist institutions to obtain and/or maintain their eligibility to participate in the Title IV, HEA programs. The institutional eligibility and participation compliance requirements are discussed in Section II of the Guide. The auditor should review the servicer's contracts with its clients to obtain an understanding of what services are to be provided. To the extent that the servicer contracts to assist an institution in obtaining and/or maintaining its eligibility, the auditor should review the requirements and perform the suggested procedures in Section II.

2. REPORTING

Required Management Assertion

[Servicer] complied with the Reporting requirements, [list reports], listed in Section II of the ED SFA Guide as applicable to our clients.

Compliance Requirements and Suggested Procedures

Servicers may contract to provide financial and student record maintenance for institutions which will include compliance with reporting requirements as discussed in Section II of the Guide. The auditor should review the servicer's contracts with its clients to obtain an understanding of what services and reports are to be provided. To the extent that the servicer contracts to comply with any of the reporting requirements, the auditor should review the requirements and perform the suggested procedures in Section II.

3. STUDENT ELIGIBILITY

Required Management Assertion

[Servicer] complied with the Student Eligibility compliance requirements listed in Section II of the ED SFA Guide as applicable to our clients.

Compliance Requirements and Suggested Procedures

SFA program descriptions and compliance requirements are detailed in Section II of the Guide. The auditor should review the servicer's contracts with its clients to obtain an understanding of what services are to be provide with regard to the determination of student eligibility and the related compliance requirements. Based on the services provided, the auditor should perform the suggested procedures in Section II dealing with student eligibility. The sample of student files to test will be based on the sampling methodology discussed in Section III. The determination that a student's financial aid award is not in excess of their need (suggested procedure c. 8 on page II-19) is the determination that the award is accurate and does not exceed any applicable aggregate or annual limits. Tests should be based on information available at the servicer, either electronic files or hard copies, and there should be no need to obtain student files or award packages from institutions.

4. DISBURSEMENTS

Required Management Assertion

[Servicer] complied with the Disbursements compliance requirements listed in Section II of the ED SFA Guide as applicable to our clients.

Compliance Requirements and Suggested Procedures

SFA compliance requirements, including payment periods, credit balances in student accounts and disbursement criteria are detailed in Section II of the Guide. The auditor should review the servicer's contracts with its clients to obtain an understanding of what services are to be provided with regard to the disbursement of SFA funds and the related compliance requirements. Based on the services provided, the auditor should perform the suggested procedures in Section II dealing with disbursements. The sample of student files to test will be based on the sampling methodology discussed in Section III. Caution should be exercised when the servicer writes award checks. In these cases, the auditor should document the procedures used to actually disburse the funds, who signed the checks, procedures to ensure that the student attended classes for the prescribed time prior to the disbursement of the funds, and the return of funds when appropriate. Tests should be based on information available at the servicer, either electronic files or hard copies, and there should be no need to obtain student files or award packages from institutions.

5. RETURN OF TITLE IV FUNDS

NOTICE: The HEA as amended on October 7, 1998, Section 484B now refers to "refunds" as "Return of Title IV Funds". Institutions may choose to implement those provisions anytime after October 7, 1998. Such institutions may be clients of the servicer. If so, see Section 484B of the HEA for guidance concerning the "Return of Title IV Funds" provisions. Also, if this is the case, modify the required management assertion to read: [Servicer] complied with the Refund compliance requirements listed in Section II of the ED SFA Guide and/or the Return of Title IV Funds compliance requirements listed in Section 484B of the HEA, as amended, as applicable to our clients.

Required Management Assertion

[Servicer] complied with the Refund compliance requirements listed in Section II of the ED SFA Guide as applicable to our clients.

Compliance Requirements and Suggested Procedures

SFA compliance requirements, including refund sequence, time frame for return of Federal funds, and leave of absence withdrawals are detailed in Section II of the Guide. The auditor should review the servicer's contracts with its clients to obtain an understanding of what services are to be provided with regard to refunds. Based on the services provided, the auditor should perform the suggested procedures in Section II dealing with refunds. The sample of student files to test will be based on the sampling methodology discussed in Section III. The determination that the proper refund has been calculated and made within the due dates and in the proper sequence should be based on the information available at the servicer, either electronic files or hard copies, and there should be no need to obtain student files from institutions.

6. GAPS AND CASH MANAGEMENT

Required Management Assertion

[Servicer] complied with the GAPS and Cash Management compliance requirements listed in Section II of the ED SFA guide as applicable.

Compliance Requirements and Suggested Procedures

SFA compliance requirements are detailed in Section II of this Guide. The auditor should review the servicer's contracts with its clients to obtain an understanding of what services are to be provided with regard to cash management and the related compliance requirements and their applicability. Based on the services provided, the auditor should perform the suggested procedures in Section II dealing with cash management. The cash management rules and procedures that apply to an institution under 34 CFR 668 Subpart K also apply to a third-party servicer. The auditor should document the servicer's cash management responsibilities. Particular care should be given to the servicer's procedures for ensuring that funds drawn are disbursed within three working days and that excess cash tolerances are not exceeded.

7. PERKINS LOAN

Required Management Assertion

[Servicer] complied with the Perkins Collections, Due Diligence, NSLDS, and, if applicable, Default Management and/or Liquidation compliance requirements listed in Section II of the ED SFA Guide as they apply to our clients.

Compliance Requirements and Suggested Procedures

SFA compliance requirements concerning Perkins Collections, Due Diligence, NSLDS, and, if applicable, Default Management and/or Liquidation are detailed in Section II of the Guide. The auditor should review the servicer's contracts with its clients to obtain an understanding of what services are to be provided with regard to collections and due diligence over Perkins funds and the related compliance requirements. Based on the services provided, the auditor should perform the suggested procedures in Section II dealing with these subjects. However, the sample of student files to test should be based on the sampling methodology discussed in Section III.

8. CLOSE OUT (IF APPLICABLE)

If an institution loses its eligibility, ceases to provide educational instruction, or discontinues participation in the Title IV program during the award year, the following additional compliance requirements must be tested. Further, other compliance requirements in this audit guide must be tested.

Required Management Assertion

[Servicer] complied with Close Out compliance requirements listed in Section II of the ED SFA Guide as they apply to our clients.

Compliance Requirements and Suggested Procedures

SFA compliance requirements are detailed in Section II of the Guide. The auditor should review the servicer's contracts with its clients to obtain an understanding of what services are to be provided with regard to an institution which ceases to participate in the Title IV programs during the award year and the related compliance requirements and their applicability. Based on the services provided, the auditor should perform the suggested procedures in Section II dealing with close out. The auditor should document the servicer's responsibilities for any of its clients which may have ceased participation in the Title IV program during the award year. Particular care should be given to if and how the servicer assists the closed client in its arrangements with regard to records concerning the administration of the program and, if applicable, the collection of any outstanding Perkins or FDLP loans.

9. SERVICER ELIGIBILITY

Required Management Assertion

[Servicer] complied with the Third-Party Eligibility compliance requirements listed in Section IV of the ED SFA Guide.

Compliance Requirements

An institution may enter into a written contract with a third-party servicer only to the extent that the servicer's eligibility has not been limited, suspended or terminated under the proceedings of 34 CFR 668 Subpart G.

A third-party servicer may not enter into a written contract with an institution if the servicer has:

- Been limited, suspended, or terminated by the Secretary within the preceding five years;
- Had, during the two most recent audits, a finding that resulted in the servicer being required to repay an amount greater than five percent of the funds that the servicer administered under the Title IV programs for any award year; or
- Been cited during the preceding five years for failure to submit required audit reports in a timely fashion; and
- Been subjected to a termination action and either the servicer, or one or more persons or entities that exercise substantial control over the servicer, or both:
  - failed to submit financial guarantees in an amount determined to be sufficient to satisfy potential liabilities arising from the servicer's administration of the Title IV, HEA programs; and
  - failed to agree to be jointly or severally liable for any liabilities arising from the servicer's administration of the Title IV, HEA programs and the civil and criminal monetary penalties authorized under Title IV of the HEA.

In a contract with an institution, a third-party servicer shall agree to:

- Comply with all statutory or regulatory provisions, and special arrangements, agreements, limitations, suspensions, and terminations entered into under Title IV HEA Programs.

- Refer to the ED Office of Inspector General for Investigations any information indicating there is reasonable cause to believe:
  - the institution might have engaged in fraud or other criminal misconduct in connection with the institution's administration of any Title IV, HEA program, or
  - an applicant for Title IV, HEA program assistance might have engaged in fraud or other criminal misconduct in connection with his or her application.
- Be jointly and severally liable with the institution for any violation by the servicer of any statutory or regulatory provisions, and special arrangements, agreements, limitations, suspensions, and terminations entered into under the Title IV HEA Programs.
- In the case of a servicer that disburses funds or delivers FFELP proceeds to a student:
  - Confirm the eligibility of the student before making that disbursement or delivering those proceeds; and
  - Calculate and pay refunds and repayments due a student, the Title IV, HEA program accounts, and the student's lender under the FSLP, Federal PLUS and Federal SLS programs in accordance with the institution's refund policy, the provisions of Sec.668.21 and Sec. 668.22, and applicable program regulation.
- If the contract is terminated, or the servicer stops providing services, goes out of business, or files a petition under the Bankruptcy Code, return to the institution all:
  - Records in the servicer's possession pertaining to the institution's participation in the program or programs for which services are no longer provided; and
  - Funds, including Title IV, HEA program funds, received from or on behalf of the institution's students, for the purposes of the program or programs for which services are no longer provided.

The IPA should immediately notify the servicer and/or its governing body if it is determined that the servicer fails to meet any servicer eligibility criterion. The IPA should consider whether the

noncompliance meets the criteria of an irregularity or illegal act as discussed in Section I of the Guide. If so, handle in accordance with the guidance in Section I.

Suggested Procedures

a. Make inquiries of the servicer's management and obtain, as part of the management representation, written representation that the servicer has not:

1. been limited, suspended, or terminated by the Secretary within the preceding five years; and

2. had to repay an amount greater than five percent of the funds it administered under the Title IV programs for any award year as a result of a finding in one of the two most recent audits; and

3. been cited for failure to submit required audits during the preceding five years.

b. Review a representative sample of the servicer's contracts to determine if the servicer has agreed to comply with the requirements contained in 34 CFR 668.25(c), concerning compliance, referrals and liability.

10. SERVICER'S SYSTEMS AND INTERNAL CONTROL

Required Management Assertion

[Servicer] has established systems with internal control which assured compliance with requirements listed in Section II of the ED SFA Guide for those services which it provided.

Compliance Requirements

In addition to examining the servicer management's assertions about the specified compliance requirements identified in Section II, this guide also requires the practitioner to examine and report on the servicer management's assertion about the effectiveness of the servicer's internal control over compliance with those specified compliance requirements.

Management is responsible for the effectiveness of the servicer's internal control and for evaluating its effectiveness using reasonable criteria. As discussed in AT 500.06, practitioners are allowed to accept an engagement to examine management's assertion about the effectiveness of the entity's internal control over compliance only if management uses reasonable criteria, such as those established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). When the servicer uses computers to process data the auditor may find useful information in the General Accounting Office publication *Assessing the Reliability of Computer-Processed Data* (GAO/OP-8.1.3, September 1990).

In performing the examination-level engagement, the practitioner is required to obtain an understanding of the relevant portions of the servicer's internal control over compliance as described above, and to test and evaluate the design and operating effectiveness of the servicer's internal control over compliance with those specified compliance requirements. As internal control over compliance varies among servicers, not all of the suggested procedures below may be applicable for testing the design and operating effectiveness of the servicer's internal control over compliance.

A servicer should have controls, however, that give the servicer reasonable assurance that it is complying with the specified compliance requirements identified in Section II of this guide. Thus, for purposes of management and practitioner reporting, the severity of control deficiencies relates to whether those internal controls prevent or detect material noncompliance in each of the specified areas. Overall guidance for the consideration of internal control and reporting requirements in an examination-level attestation engagement is provided in paragraphs 42-44 of SSAE No.3, as amended by SSAE #9.

Suggested Procedures

a.[1] Review, evaluate and document the system of internal control over each SFA program service provided. Documentation may consist of flowcharts, narratives or checklists, but must present a clear understanding of the servicer's systems and its controls.

b. Select a sample of transactions which are representative of the functions preformed and test their accuracy and compliance with applicable SFA requirements. For example, if Pell awards are determined by the servicer, the sample should include a number of student records and the computed awards. From the information available at the servicer, either electronic or hard copy files, evaluate the accuracy of the data and re-compute the Pell awards. Be aware of possible inconsistencies in the data.

c. In those cases where the servicer uses automated systems, consideration should be given to developing and running a "test deck" or other procedures on the servicer's automated systems to insure that they function in accordance with documented procedures. The procedures should also be reviewed to determine that they comply with applicable SFA regulations.

[1] Review, evaluate and document means: the IPA must document his/her understanding of the relevant portions of internal control and the assessed level of control risk.

SECTION V

ILLUSTRATIVE REPORTS AND APPENDICES

Financial Statements:

Example A-1	Report on the Audit of the Basic Financial Statements
Example A-2	Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (No Reportable Instances of Noncompliance and No Material Weaknesses [No Reportable Conditions Identified])
Example A-3	Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (Reportable Instances of Noncompliance and Reportable Conditions Identified)

Compliance Attestation:

Example B	Compliance Report Section
Example B-1	Report Package Cover Page (Servicer)
Example C	Auditor Information Sheet
Example C-1	Servicer Information Sheet
Example D	Report on Compliance with Specified Requirements Applicable to the SFA Programs
Example D-1	Report on Internal Control Over Compliance [Containing Reportable Conditions][No Material Weaknesses Identified]
Example E	Summary Schedules A, B, and C
Example F	Schedule of Findings and Questioned Costs
Example G	Auditor's Comments on Resolution Matters Relating to the SFA Programs
Example H	Corrective Action Plan

Appendices:

Appendix A	SFA Programs' Minimum and Maximum Amounts
Appendix B	Examples of High Risk Indicators
Appendix C	U.S. Department of Education Offices
Appendix D	Instructions for Example E
Appendix E	Dear Certified Public Accountant Letter, CPA-99-01, April 1999
Appendix F	Dear Certified Public Accountant Letter, CPA-99-02, November 1, 1999

REPORT ON THE AUDIT OF THE BASIC FINANCIAL STATEMENTS

We have audited the balance sheet of [Institution] as of [Date] and the related statements of income, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the [Institution's] management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of [Institution] as of [Date] and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.[1]

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying footnote X on the institution's calculation of its Title IV 90/10 revenue test and footnote Y on related party transactions are required by the U. S. Department of Education and are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.[2]

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[1] The opinion paragraph should be modified as necessary under the circumstances.

[2] AICPA, Professional Standards, vol. 1, AU sec 551. When reporting the supplementary information, the auditor should consider the effect of any modifications to the report on the general-purpose financial statements. Furthermore, if the report on supplementary information is other than unqualified, this paragraph should be modified. Guidance for reporting in these circumstances is described in paragraphs 9 through 11 and 13 through 14 of SAS No. 29 (AICPA, Professional Standards, vol. 1, AU secs. 551.09-.11 and 551.13-14).

In accordance with *Government Auditing Standards*, we have also issued our report dated [Date of report] on our consideration of the [Institution's] internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

[Signature]

[Date]

Footnote X: [Institution] derives a substantial portion of its revenues from Student Financial Aid (SFA) received by its students under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). To continue to participate in the SFA programs the [Institution] must comply with the regulations promulgated under the HEA. The regulations restrict the proportion of cash receipts for tuition and fees from eligible programs to not more than 90 percent from the Title IV programs. The failure of the [Institution] to meet the 90 percent limitation will result in the loss of the [Institution□s] ability to participate in SFA programs. For the fiscal year ended [date] the [Institution] received $xx,xxx of Title IV funds, total eligible cash receipts of $xx,xxx, resulting in a percentage of xx.xx. This information is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Footnote Y: Related Party Transactions. [Institution] participates in the Student Financial Aid (SFA) under the Title IV programs administered by the U.S. Department of Education pursuant to the Higher Education Act of 1965, as amended (HEA). The [Institution] must comply with the regulations promulgated under the HEA. Those regulations require that all related party transactions be disclosed, regardless of their materiality to the financial statements. Accounts Receivable - Officers. The $xx,xxx amount shown under current assets for accounts receivable - Officers is collateralized and fully secured by real property and will be repaid, according to the account receivable terms, within 12 months. The value of the real property equals or exceeds the amount of the accounts receivable of $xx,xxx. This information is required by the U.S. Department of Education and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (No Reportable Instances of Noncompliance and No Material Weaknesses [No Reportable Conditions Identified])[1]

[*Addressee*]

We have audited the financial statements of [*Institution*] as of and for the year ended June 30, 19X1, and have issued our report thereon dated August 15, 19X1.[2] We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*,[3] issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether [*Institution*'s] financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.[4]

Internal Control Over Financial Reporting

In planning and performing our audit, we considered [*Institution*'s] internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses.

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[1] The auditor should use the portions of examples A-2 and A-3 that apply to a specific auditee situation. For example, if the auditor will be giving an unqualified opinion on compliance but has identified reportable conditions, the compliance section of this report would be used along with internal control section of example A-3. Alternatively, if the auditor will be giving a qualified opinion on compliance but has not identified reportable conditions, internal control section of this report would be used along with the compliance section of example A-3.

[2] Describe any departure from the standard report (for example, a qualified opinion, a modification as to consistency because of a change in accounting principle, or a reference to the report of other auditors).

[3] The standards applicable to financial audits include the general, fieldwork, and reporting standards described in chapters 3, 4, and 5 of *Government Auditing Standards*.

[4] See paragraphs 5.18 and 5.19 of *Government Auditing Standards* for the criteria for reporting.

A material weakness is a condition in which the design or operation of one or more of internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.[5]

This report is intended solely for the information and use of the audit committee, management, and the U. S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

[*Signature*]
[*Date*]

[5] If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of internal control over financial reporting, this paragraph should be modified to include a statement such as the following: AHowever, we noted other matters involving internal control over financial reporting, which we have reported to management of Example Entity in a separate letter dated August 15, 19X1.≅ This reference is not intended to preclude the auditor from including other matters in the separate letter to management. Furthermore, the reference to management is intended to be consistent with paragraph 5.28 of *Government Auditing Standards* which indicates that communications to Atop≅ management should be referred to.

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (Reportable Instances of Noncompliance and Reportable Conditions Identified)[1]

[*Addressee*]

We have audited the financial statements of [*Institution*] as of and for the year ended June 30, 19X1, and have issued our report thereon dated August 15, 19X1.[2] We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*,[3] issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether [*Institution*'s] financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*[4] and which are described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example, 99-2 and 99-5*].

Internal Control Over Financial Reporting

In planning and performing our audit, we considered [*Institution*'s] internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect ability to

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[1] The auditor should use the portions of Examples A-2 and A-3 that apply to a specific auditee situation. For example, if the auditor will be giving an unqualified opinion on compliance but has identified reportable conditions, the compliance section of Example A-2 would be used along with internal control section of this report. Alternatively, if the auditor will be giving a qualified opinion on compliance but has not identified reportable conditions, internal control section of Example A-2 would be used along with the compliance section of this report.

[2] Describe any departure from the standard report (for example, a qualified opinion, a modification as to consistency because of a change in accounting principle, or a reference to the report of other auditors).

[3] The standards applicable to financial audits include the general, fieldwork, and reporting standards described in chapters 3, 4, and 5 of *Government Auditing Standards*.

[4] See paragraphs 5.18 and 5.19 of *Government Auditing Standards* for the criteria for reporting.

record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example, 99-1, 99-4, and 99-8*].

A material weakness is a condition in which the design or operation of one or more of internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.[5] [6]

This report is intended solely for the information and use of the audit committee, management, and the U. S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

[*Signature*]
[*Date*]

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[5] If conditions believed to be material weaknesses are disclosed, the report should identify the material weaknesses that have come to the auditor=s attention. The last sentence of this paragraph should be replaced with language such as the following: However, of the reportable conditions described above, we consider items [*list the reference numbers of the related findings, for example, 97-1 and 97-8*] to be material weaknesses.

[6] If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of internal control over financial reporting, this paragraph should be modified to include a statement such as the following: We also noted other matters involving internal control over financial reporting, which we have reported to management of [Institution] in a separate letter dated August 15, 19X1. This reference is not intended to preclude the auditor from including other matters in the separate letter to management. Furthermore, the reference to management is intended to be consistent with paragraph 5.28 of *Government Auditing Standards* which indicates that communications to top management should be referred to.

EXAMPLE B

COMPLIANCE REPORT SECTION

Note: The purpose of this page is to identify each SFA program covered by this report package.

NAME OF INSTITUTION

CITY, STATE

EIN NUMBER:

OPE ID NUMBER:

DUNS NUMBER:

COMPLIANCE ATTESTATION EXAMINATION
OF THE TITLE IV STUDENT FINANCIAL ASSISTANCE PROGRAMS

at (list ***all*** sites included in this examination)

FEDERAL PELL GRANT PROGRAM (84.063)
FEDERAL PERKINS LOAN PROGRAM (84.038)
FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT PROGRAM (84.007)
FEDERAL WORK-STUDY PROGRAM (84.033)
FEDERAL FAMILY EDUCATION LOAN PROGRAM (84.032)
FEDERAL DIRECT LOAN PROGRAM (84.268)

FOR THE FISCAL YEAR ENDING MONTH, DAY, YEAR

XYZ & Co.
Certified Public Accountants

EXAMPLE B-1

REPORT PACKAGE COVER PAGE

NAME OF SERVICER

CITY, STATE

COMPLIANCE ATTESTATION EXAMINATION
OF THE TITLE IV STUDENT FINANCIAL ASSISTANCE PROGRAMS

FOR THE FISCAL YEAR ENDING MONTH/DAY, YEAR

XYZ & Co.
Certified Public Accountants

AUDITOR INFORMATION SHEET

NAME OF INSTITUTION
(aka Name of Institution, if applicable)
INSTITUTIONAL ADDRESS
EIN NUMBER(S):
OPE ID NUMBER(S):
DUNS NUMBER:
TEL. NO. (____) ____-_____
FAX. NO. (____) ____-_____
PRESIDENT: _____
CONTACT PERSON & TITLE: _____

LEAD AUDITOR : _____
EMAIL ADDRESS : _____
LICENSE NUMBER: Home State _____Out of State(s)_____
FIRM'S NAME : _____
ADDRESS : _____
_____
_____

TEL. NO. _____ FAX. NO. _____

Programs Examined:
(Check as Applicable)

FSEOG	84.007	_____
FFELP	84.032	_____
FWS	84.033	_____
FPL	84.038	_____
Pell	84.063	_____
FDLP	84.268	_____

For the Award Year that ended during the institution□s fiscal year, the percentage of:

Correspondence or telecommunication courses to total courses _____
Regular students enrolled in correspondence courses _____
Regular students that are incarcerated _____
Regular students enrolled based on ability to benefit _____
For short term programs:
Completion_____
Placement_____

EXAMPLE C
Page 2 of 2

The campuses/locations considered as part of this entity and covered or excluded by this examination are:

All Locations	> 50% of Program Offered @ Site	Location On Eligibility Letter	Notice to ED Prior to Offering Instruction	Date Opened	Date Closed	Date Of CPA□s Last Visit	Exclusion Reason
	Yes/No	Yes/No	Yes/No				

Institution's Primary Accrediting Organization:_____
Other Accrediting Organizations:_____

Note: If the institution does not use a servicer, make a statement to that effect.

Records for the accounting and administration of the SFA programs are located at (provide location):

For Close Out Examination Only:

Current Mailing Address:
Storage location of SFA Records:

Open bank accounts or unexercised sureties that may contain Federal funds:

Bank Name and Address	Account Number

Note: Use as many lines as necessary for the above data.

SERVICER INFORMATION SHEET

NAME OF SERVICER
SERVICER ADDRESS

TEL. NO. (____) ____-_____
FAX. NO. (____) ____-_____
PRESIDENT: _____
CONTACT PERSON & TITLE: _____

LEAD AUDITOR: _____
E MAIL ADDRESS: _____
LICENSE NUMBER: Home State _____Out of State(s)_____
FIRM'S NAME: _____
ADDRESS: _____
_____
_____

TEL. NO. (____) ____-_____
FAX. NO. (____) ____-_____

DIVISION OF RESPONSIBILITY FOR COMPLIANCE REQUIREMENTS

Compliance Requirement	*Responsibility of Institution*	*Responsibility of XYZ Service Center*	*Explanation of Divided Responsibility*
I. Computer operations			
A. Terminal and software security			
B. Data integrity			
C. System and data backup			
D. Disaster recovery plan			
II. Cash management			
A. Drawdowns			
B. Authorization vs. expenditures			
C. Reconcile G/L to bank			
D. Bank account notes federal funds			
III. Financial reports			
A. FISAP			
B. GAPS			
C. Pell IPS			

EXAMPLE C-1
Page 2 of 4

Compliance Requirement	*Responsibility of Institution*	*Responsibility of XYZ Service Center*	*Explanation of Divided Responsibility*
IV. Institutional eligibility			
A. Participation agreement/ECAR			
B. Accreditation status			
C. Admissions policy			
D. Eligible programs			
E. Calculation of institution eligibility ratios			
F. Licenses			
G. Administrative capability items			
V. Student eligibility			
A. High school diploma or equivalent or ability to benefit			
B. Regularly enrolled in eligible program			
C. Citizen or permanent resident			
D. Satisfactory progress			
E. Default/refund status			
F. Social security number match requirement			
G. Other requirements			
VI. Coordination of programs			
A. Financial aid organization			
B. Other information available			
C. Needs analysis			
D. Professional judgement documentation			
VII. Administrative capability			
A. Student file maintenance			
B. Record retention			
C. Verification			
VIII. Disbursements			
A. Financial aid transcripts/NSLDS information			
B. Independent/Dependent status determination			
C. Timing and amount of disbursements			
IX. Refunds or overpayments			
A. Policy			
B. Refund calculations			
C. Overpayment calculations			
D. Disbursement and accounting for refunds/overpayments			

Compliance Requirement	*Responsibility of Institution*	*Responsibility of XYZ Service Center*	*Explanation of Divided Responsibility*
X. Institutional disclosure			
A. Accuracy of institutional data			
B. Disclosure to students			
XI. Pell grant			
A. Types of expenditures allowed			
B. Program performance			
1. Calculation and disbursement of award			
2. Timing of payment; cutoff dates for receipts of SARs			
C. Financial reports			
XII. Campus-based programs (general)			
A. Types of expenditure allowed			
1. Program expenditures			
2. Administrative cost allowance			
B. Program performance			
1. Accuracy of FISAP data			
2. System of need analysis, etc.			
XIII. Campus-based programs (Perkins)			
A. Type of expenditures allowed			
B. Matching			
C. Program performance			
1. Student eligibility			
2. Approved promissory note			
3. Due diligence			
4. Repayment records			
D. Special compliance requirements			
1. Minimum cash balance; cash planning			
2. Treatment of interest earned on Perkins loan balance			
XIV. Campus-based programs (FSEOG)			
A. Eligible expenditures			
B. Matching			
C. Selection of students for FSEOG awards			

EXAMPLE C-1
Page 4 of 4

Compliance Requirement	*Responsibility of Institution*	*Responsibility of XYZ Service Center*	*Explanation of Divided Responsibility*
XV. Campus-based programs (FWS)			
A. Types of expenditures and employment allowed			
1. Types of employment allowed			
2. Types of expenditures allowed			
B. Matching			
C. Program performance			
1. Selection of students for employment			
2. Approval of time sheets and payment to students			
D. Special compliance requirements			
1. JLD and CSJLD programs			
2. CSL programs (5% minimun)			
XVI. Federal Family Education Loans (FFEL)			
A. Program performance			
1. Determination of eligibility and completion of application			
2. Default reduction measures			
3. Entrance and exit counseling			
4. Loan disbursement			
5. EFT Roster reconciliation			
6. Eligibility for disbursement			
B. Status reporting			
1. SSCR completion			
2. Change in enrollment status			
C. Special compliance requirements			
1. Refund policy			
2. Refunds to lenders			
XVII. Federal Direct Loan Program (FDLP)			
A. Program performance			
1. Determination of eligibility			
2. Entrance and exit counseling			
3. Exporting & importing electronic files to/from the LOC			
4. Loan disbursement			
5. Monthly data matching including:			
1. Loan and cash detail records			
2. Summary records			
B. FDLP status reporting			
1. SSCRs			
2. Change in enrollment status			

REPORT ON COMPLIANCE WITH SPECIFIED REQUIREMENTS APPLICABLE TO THE SFA PROGRAMS

INDEPENDENT ACCOUNTANT'S REPORT

We have examined management's assertions, that [Institution/Servicer] complied with the specified compliance requirements regarding Institutional Eligibility, Reporting (identify reports), Student Eligibility, Disbursements, Refunds/Return of Title IV Funds, GAPS and Cash Management, Perkins Loans, Administrative Capability, and Close Out(if applicable) listed in Section II of the U S Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*, relative to participation in the Federal Student Financial Assistance Programs during the year ended [Date][1]. Management is responsible for [Institution's/Servicer's] compliance with those requirements. Our responsibility is to express an opinion on [Institution's/Servicer's] compliance based on our examination.

Our examination was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; attestation standards established by the American Institute of Certified Public Accountants; and the Audit Guide, *Audits of Federal Student Financial Assistance Programs At Participating Institutions and Institution Servicers*, issued by the U.S. Department of Education, Office of the Inspector General, [2000 Revision] and accordingly, included examining, on a test basis, evidence about [Institution's/Servicer's] compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on [Institution's/Servicer's] compliance with specified requirements.

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[1] The IPA should list the assertions applicable to the institution/servicer. For example, the additional assertions listed in Section III of the ED SFA Audit Guide must be obtained for servicer audits. Likewise, assertions not applicable should be deleted, i.e., the close out assertion for institutions still participating in Title IV program or the Perkins Loan assertion if the institution is not participating in the Perkins Loan progam.

In our opinion, [Institution/Servicer] complied, in all material respects, with the aforementioned requirements for the year ended [Date].[2]

This report is intended solely for the information and use of the audit committee, management, and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]
[Date]

[2] The IPA should modify the standard report if any of the following conditions exists:

- There is a material noncompliance with specified requirements (paragraphs 58 through 65 of SSAE #3 as amended by SSAE #9);
- There is a matter involving a material uncertainty (paragraph 66 of SSAE #3 as amended by SSAE #9);
- There is a restriction on the scope of the engagement(paragraphs 55-58 of SSAE #2, as amended by SSAE #9);
- The IPA decides to refer to the report (excluding servicer audit report) of another IPA as the basis, in part, for the IPA's report (paragraph 59 and 60 of SSAE #2, as amended by SSAE #9); or
- If management discloses the noncompliance and appropriately modifies its assertion or disagrees with the practitioner over the existence of material noncompliance and does not include in its assertion a description of such noncompliance, the IPA should refer to the guidance in paragraphs 58 - 64 of SSAE # 3, as amended by SSAE #9.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE [CONTAINING REPORTABLE CONDITIONS] [NO MATERIAL WEAKNESSES IDENTIFIED]

In planning and performing our audit of the [*Institution's/Servicer's*] compliance for the year ended [*Date*], we considered its internal control over compliance with the Federal student financial aid programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and not to provide assurance on internal control. However, we noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the [*Institution's/Servicer's*] ability to administer the Federal student financial aid programs in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example 99-8, 99-10, 99-14*].

A material weakness is a condition in which the design or operation of one or more of internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to the Federal student financial aid programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness. [1]

This report is intended solely for the information and use of an audit committee, management, and the U. S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]
[Date]

[1] If the reportable conditions listed in the above paragraph are considered to be material weaknesses, change the last sentence in this paragraph to read: However, of the reportable conditions described above, we consider items [*list the reference numbers of the related findings, i.e. 99-8, 99-14*] to be material weaknesses.

EXAMPLE E

Summaries Must Be Included in the Findings and Questioned Costs Section of the Report

Summary Schedule A: STUDENT ELIGIBILITY

Student/ Number	Student File Not Found	Not a Regular Student	Enrolled < ☐ Time	Non-Eligible Citizen	Invalid SSN	No Financial Need	SFA Exceeds Need	Under Compulsory HS Age	Missing Statements: ED Purpose	Missing Statements: On Overpayments & Defaults	If Applicable: Incomplete Verification	If Applicable: Not Making SAP	If Applicable: Failed ATB Test	If Applicable: ATB Not Doc	If Applicable: Missing FATs	Questioned Costs: FFELP	FDLP	Pell	FSEOG	FWS	FPL	Total
1A				X				X			X		X			$1,000		$2,300				$3,300
Total																						

Summary Schedule B: DISBURSEMENTS

Student/ Number	Credited student's acct more than 10 days before the start of classes: Pell	SEOG	Perkins	Paid student directly more than 10 days before the 1st day of classes: Pell	SEOG	Perkins	FFEL	FDLP	Released funds to student on an LOA: FFEL	FDLP	Delivered 1st installment before 30 days after the 1st day of classes: FFEL	FDLP	Failed to conduct counseling: Entrance: FFEL	Entrance: FDLP	Exit: FFEL	Exit: FDLP	Untimely paid credit balance: FFEL	FDLP	Made 2nd payment prior to the completion of 1st payment period: Pell	Incorrect OPE# on loan app: FFEL	Missing signed prom note: Perkins
1A				X													X		X		
Total																					

Summary Schedule C: REFUNDS

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
						FFEL						Pell/FDLP/SEOG				
Student/ Number	Last Day of Attendance	Withdrawal Date	Total School Refund Amount	Total IPA Refund Amount	Balance Refund Over Paid/Due (D-C)	Refund Amount	Refund Due Date (B + 60) Days	Refund Check Cleared Date	# of Days Late (H - G)	Excess Interest Paid by ED (F(I/365)*Int)	Not Reported on SSCR	Amount of Refund	Refund Due Date (B + 30) Days	Refund Check Cleared Date	# of Days Late (N - M)	Imputed Interest To ED (L(O/365)*Int)
3B	11/01/93	11/05/93	$1,500	$1,500	$0	$1,000	01/04/94	03/01/94	56	$12.27		$500	12/05/93	03/01/94	86	$2.85
Total																

The software will convert Student/SSN into assigned numbers.

BEST COPY AVAILABLE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Must be Attached to Auditor's Report on Compliance)

If this Schedule is not prepared in accordance with all elements described below, the compliance report package will be rejected and the institution may be subject to administrative sanctions pursuant to 34 CFR 668 Subpart G.

Total Population:

	Pell	FFELP	FDL	FSEOG	FPL	FWS
Universe						
dollars						
students						

Enrolled, graduated or students on an approved leave of absence:

	Pell	FFELP	FDL	FSEOG	FPL	FWS
Universe						
dollars						
students						
Sample						
dollars						
students						

EXAMPLE F
Page 2 of 3

Withdrew, dropped or terminated students:

	Pell	FFELP	FDL	FSEOG	FPL	
Universe						
dollars refunded						
students						
Sample						
dollars refunded						
students						

As applicable, each audit finding must also include the following:

1. The number of students and dollar value by SFA program for:

   - Instances of noncompliance;
   - Information on all noncompliance findings; and
   - IPA's definition of material noncompliance for the assertion under which the instances of noncompliance were found (Note: Many IPAs define materiality as an error rate and/or a dollar level of questioned costs.)

2. If the sample was expanded to evaluate statistically the projected error rate: the sampling methodology; confidence level; precision; expected rate of occurrence and estimated disallowances to the population including the point estimate and lower and upper limits.

3. Summary Schedules A, B, and C (see Example E).

GAO audit standards state that well-developed findings generally contain these attributes:

- ☐ Statement of condition
- ☐ Criteria
- ☐ Effect
- ☐ Cause
- ☐ Recommendation

The IPA should attempt to identify the condition, criteria, effect, and cause to provide sufficient information to ED officials to permit timely and proper corrective action.

Each finding in the Schedule must be numbered to allow for easy referencing of audit findings during audit resolution and follow-up. Finding numbers are to be the last two digits of the fiscal year being audited as the first two digits of each finding number, followed by a numeric sequence. For example, for findings identified and reported in the audit of fiscal year ending in 1999 would be assigned reference numbers 99-1, 99-2, etc.

As part of an finding the IPA is required to make a recommendation for corrective action to the institution. If corrective action is not necessary, the IPA must describe the reason. The institution must develop a SEPARATE corrective action plan (see Example H) based on the IPA's findings and recommendations and must include this plan when submitting the report package.

EXAMPLE G

AUDITOR'S COMMENTS ON RESOLUTION MATTERS RELATING TO PRIOR AUDIT FINDINGS

The IPA should review the prior audit report and/or program review(s). Prior audits include all audits and examinations, i.e. IPA-SFA, ED-OIG, ED-SFAP program review reports, guarantee agency reports, and State licensing agency reports. The IPA should obtain from the institution, the ED Program Determination Letter (PDL) or Final Audit Determination (FAD) on the prior audit report or program review(s) and review their contents with management. The IPA may find it necessary to perform procedures directed specifically at the status of prior audit findings and/or program review(s). Those procedures might include: observation of an activity that has been redesigned to address a prior-year finding or testing of similar current-year transactions. The IPA should ensure that the findings were resolved or what actions, if any, the institution is required to take.

The auditor should report the status of all prior audit findings where the institution has not taken proper corrective action. If there are no prior year compliance audit findings, the auditor should make a statement to that effect. When reporting on prior findings that have not been corrected the auditor should use the same number assigned to the finding in the prior audit report or program review. If the prior audit report or program review did not have the findings numbered, the auditor must assign numbers as the last two digits of the fiscal year audited or reviewed as the first two digits of each finding number, followed by a numeric sequence. For example, for findings identified and reported in an audit or program review of fiscal year ending in 1999 would be assigned reference numbers 99-1, 99-2, etc.

Example:

The institution has not taken corrective action on findings in prior audit report, ACN # xx-xxxx-xxxxx titled [Title of report].

Finding No. 99-1 The required documentation with regard to financial aid transcripts was not obtained for students receiving aid who have attended other eligible institutions.

Status The institution has not obtained the required documentation from other eligible institutions nor has the institution reimbursed the appropriate programs for the amount of the recommended disallowance, $15,350.

CORRECTIVE ACTION PLAN

(Must be on Institution's or Servicer's Letterhead)

Audit Firm _____
Audit Period _____

The Corrective Action Plan must include the number the auditor assigns to audit findings in the Schedule of Findings and Questioned Costs. The number must include the fiscal year in which the finding initially occurred.

A. Comments on Findings and Recommendations:

The institution must provide a statement of concurrence or nonconcurrence with the findings and recommendations. If the institution does not agree with a finding, specific information must be provided to support its position. If the information is voluminous, an appendix may be attached to the submission.

If the institution determines that the questioned costs are unallowable or that the charges cannot be supported, the institution should provide a statement to that effect in the corrective action plan.

If the institution believes a questioned cost, or a portion of that cost is an allowable cost, the institution must identify the allowable portion by program.[1]

B. Actions Taken or Planned:

The institution must detail actions taken or planned to correct deficiencies identified in the report. For planned actions, institutions must provide projected dates for completion of major tasks. If the institution believes a corrective action is not required, a statement describing the reasons must be included.

C. Status of Corrective Actions on Prior Findings:

For all prior audits, e.g. IPA SFA, ED OIG, ED-SFAP program review, and State Guarantee Agency and SPRE reports, the institution must comment on all prior findings whether or not corrective action has been completed.[2]

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[1] The institution is required to have the IPA provide a statement that the necessary documents were located/obtained and/or that the actions were taken either with the CAP or during the audit resolution process.

[2] ED may have issued a FAD for a prior audit/examination. A FAD describes any corrective actions the institution is required to take within 45 days of receipt (unless otherwise stated) of the FAD.

EXAMPLE H
Page 2 of 2

The institution must provide a report on the status of corrective actions taken on prior findings that remain open. An update must be included on dates for completion of major tasks and responsible officials for any actions not completed.

_____
(Signature)
Institution or Servicer Official's Name
Title Telephone #:

SFA PROGRAMS' MINIMUM AND MAXIMUM AMOUNTS
(SUBJECT TO ANNUAL CHANGES)

***Federal Pell Grant*:**

The amount of the award varies depending upon the Payment Schedule in effect for the award year involved, but may not be below the minimum or exceed the maximum award established for the year (34 CFR 690.63).

FSEOG:

Minimum $100 and maximum of $4,000 for the academic year.

Perkins Loan Program (Effective October 1, 1998):

Table 1

FEDERAL PERKINS LOAN MAXIMUM LOAN AMOUNTS	
Academic Level	Annual Limits
Undergraduate Student	$4,000
Graduate or Professional Student	$6,000
Undergraduate	$20,000*
Graduate/Professional	$40,000
All Others	$8,000

* For a student who has successfully completed two years of a program leading to a bachelor's degree but who has not yet received the degree.

PRIOR TO OCTOBER 1, 1998
EFFECTIVE DATE OF HEA AMMENDMENTS

FFELP & FDLP

Table 2

FFELP & FDLP LOAN PRORATION		
Grade Level/Program Length □	Base Stafford Loans (sub and unsub)	Additional Unsubsidized Stafford
Undergraduate	Annual Limits	
First Year Student		
Full academic year	$2,625	$4,000
□ 2/3 academic year	$1,750 *	$2,500 *
□ 1/3 academic year	$ 875 *	$1,500 *
< 1/3 academic year	$ 0 *	$ 0 *
Second Year Student		
Full academic year	$3,500	$4,000
□ 2/3 academic year	□	$2,500 *
□ 1/3 academic year	□	$1,500 *
< 1/3 academic year	□	$ 0 *
Third Year Student and Beyond		
Full academic year	$5,500	$5,000
□ 2/3 academic year	□	□
□ 1/3 academic year	□	□
< 1/3 academic year	□	□
Graduate or Professional Student	$8,500	$10,000
	Aggregate Limits	
Undergraduate	$23,000	$23,000
Graduate/Professional	$65,500	$73,000

□ Applied to:
- Program of study that is shorter than an academic year;
- Program of study that is longer than an academic year, but contains a final period of enrollment that is shorter than an academic year.

* Fixed Proration required: Fixed prorated loan limits are set dollar amounts based on the length of a student□s program (or the final period of enrollment) relating to a full year. The maximum annual loan limit is identified by determining the ratio that is the lesser of the credit or clock hours in the program or remaining balance of the program over the credit or clock hours in the school□s academic year OR the weeks of instructional time in the program or final period of enrollment over the 30 weeks in the statutory definition of an academic year.

□ Proportional Proration required: The maximum annual loan amount is the ratio that the remaining balance of the student's program bears to the academic year (e.g. For a second year student that has 600 clock hours of a program remaining over 900 clock hours in the academic year equals 2/3 x $3,500 (annual loan maximum for full academic year) = $2,334 prorated annual loan maximum).

ON OR AFTER OCTOBER 1, 1998
EFFECTIVE DATE OF 1998 HEA AMMENDMENTS [3]

FFELP & FDLP

Table 3

FFELP & FDLP LOAN PRORATION		
Grade Level/ Program Length	Base Stafford Loans (sub and unsub)	Additional Unsubsidized Stafford
Undergraduate	Annual Limits	
First Year Student Full academic year < academic year	$2,625 □	$4,000 □
Second Year Student Full academic year < academic year	$3,500 □	$4,000 □
Third Year Student and Beyond Full academic year < academic year	$5,500 □	$5,000 □
Graduate or Professional Student	$8,500	$10,000
	Aggregate Limits	
Undergraduate	$23,000	$23,000
Graduate/Professional	$65,500	$73,000

□ Proportional Proration required

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[1] The 1998 Amendments eliminated the specified loan amounts (for borrowers enrolled in a program of undergraduate education that is less than one academic year) and replaced them with a calculation that reduces the loan amount proportionally based on the relationship of the program length to the length of the academic year. The HEA now provides that the maximum amount that a borrower enrolled in a program of undergraduate education that is less than one academic year may receive is the amount that bears the same ratio to the statutory annual maximum as the program of study in which the borrower is enrolled bears to one academic year. [e.g. for a first year student with a program length of 500 clock hours in which one academic year is 900 clock hours, the proration determination would be $1458 ($2,625 x 500/900) for subsidized and unsubsidized, and $2,222 ($4,000 x 500/900) for additional unsubsidized] This applies to a program of study that is: 1) shorter than an academic year; 2) longer than an academic year, but contains a final period of enrollment that is shorter than an academic year, and 3) an academic year in length, but contains a final period of enrollment that is shorter than an academic year (effective July 1, 2000).

The 1998 Amendments also clarified that annual loan limits are authorized for an academic year as that term is defined in section 481(a)(2) of the HEA, which contains a minimum standard of instructional time and academic coursework. As a result, the calculation of the proportional loan amount for a program of study that is less than a full academic year in length should use the ratio that is the lesser of the ratio of academic credits or number of weeks to the academic year.

Direct PLUS and FPLUS

Table 4

Direct PLUS and FPLUS	
Annual	Aggregate
Cost of attendance minus other aid per eligible dependent student	N/A

APPENDIX B

EXAMPLES OF HIGH RISK INDICATORS
(OTHERS MAY EXIST)

General	ATB Tests	SFA Files	Attendance
Rapid growth in short period of time	Different ink and handwriting on tests	Discrepancies in financial aid data	Erasures, white outs and mark overs
Using pre-printed loan applications & using one lender	White outs	Parent or student signatures not matching	Inadequate policies in marking attendance
Large number of loan applications with similar characteristics	Evidence of students retaking the test	Non-English speaking students filling out SFA forms in English	Students marked present for days the school was closed
Use of high pressure recruitment tactics	Improper scoring of test	Different ink and handwriting	Extended gaps between days attended
Paying students to recruit other students	Unapproved tests	White outs	
High turnover of management, faculty and other staff	Tests given in language other than English	Discrepancies in name spellings	
Duplicate/erroneous SSNs	Multiple tests not in accordance with test publisher□s instructions		
Large number of foreign students from the same country			
Workstudy work times, class times, and for student athletes, practice and/or game times are the same			
No refunds, incorrect refunds and/or late refunds.			
Large number of students dropping/withdrawing after the refund (repayment of Title IV funds) period			
Similar copying smudges or patterns			
Typed in names or dates on high school diplomas or GED			
Poorly maintained facilities			
High student enrollment & low student attendance			
High withdrawal benchmark and/or default rate			
Facility size is too small for the size of the student body			
Teachers instructing more than 9 hours per day			

Cash Management
Single draw of full authorization
Excess balances
Discrepancies between general ledger & bank balances

BEST COPY AVAILABLE

APPENDIX C

U.S. DEPARTMENT OF EDUCATION OFFICES

For questions on the application of this guide:

U.S. Department of Education
Office of Inspector General
Non-Federal Audits Advisory
and Assistance Team
1999 Bryan Street, Suite 2630
Dallas, TX 75201-6817
Phone:214-880-3031
FAX: 214-880-2492

For comments on this guide:

U.S. Department of Education
Office of Inspector General
Director, Non-Federal Audits
Wanamaker Building
100 Penn Square East, Suite 502
Philadelphia,PA 19107
Phone: 215-656-6900
FAX: 215-656-8628

Audit reports mailed via U.S. Postal Service should be addressed to:

U.S. Department of Education
Case Management & Oversight
Data Management & Analysis Division
Document Receipt & Control Center
P.O. Box 44805
L'Enfant Plaza Station, SW
Washington, DC 20026-4805

Audit Reports sent via commercial overnight or courier services should be addressed to:

U.S. Department of Education
Case Management & Oversight
Data Management & Analysis Division
Document Receipt & Control Center
7 & D Streets, SW
GSA Building, Room 5643
Washington, DC 20407

INSTRUCTIONS FOR EXAMPLE E

Example E, Schedules A, B and C may be submitted on ***paper only***. To keep from violating the Privacy Act, Schedules A, B and C must NOT include the student's name or social security number. You must assign each student from each sample a specific number (identical to the software below, the number assigned must contain a suffix which identifies from which universe of students the student was selected, i.e. the suffix "a" for the universe of students who did not drop, withdraw or terminate, the suffix "b" for the universe of students who did drop, withdraw or terminate) and list that number on the appropriate schedule. A separate document must be submitted with the audit report package that identifies each student by their specific number, name, and social security number. This separate document CANNOT be bound in the audit report package.

Wordperfect Template or PDF Format Available to Prepare Example E
A Wordperfect template or a PDF file is available for completing Example E, Schedules A, B and C. You will need Internet access (either by modem or through a LAN) to access them. Either file can be downloaded from the Nonfederal team's Internet website at the URL: http://www.ed.gov/offices/OIG/nonfed/sfa.htm. On this web page, arrow down to the section titled School/School Servicer Audits. These files are listed on the line-- "Template for Preparing Example E, Schedules A, B, and C". Simply click on either file to open the file, or save the file to disk.

CPA-99-01

April 26, 1999

Dear Certified Public Accountant:

Practitioners performing financial statement audits of proprietary institutions in accordance with the July 1997 updated Audit Guide, Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions, must ascertain the validity of the institution's 85/15 percent revenue calculation[4]. The Audit Guide refers to the calculation as the 85/15 revenue test. The 85/15 revenue test determines an institution's compliance with the requirement that no more than 85 percent of the institution's revenues for tuition, fees and other institutional charges to students in eligible programs are derived from Title IV Student Financial Aid programs.

The U. S. Department of Education, Office of the Inspector General (ED/OIG) has identified mistakes in the calculation of the 85/15 percent revenue test in audited financial statements submitted to ED which indicated that the institutions met the revenue requirement when they had not. While, as noted above as footnote 1, proprietary institutions will after October 7, 1998 be subject to a 90/10 revenue test, the same calculation principles apply. Therefore, the guidance in this letter applies equally to audits of the 90/10 revenue test applicable in future years. This letter addresses some of the mistakes and gives guidance to the CPA community auditing the 85/15 percent revenue test. Specific examples of mistakes were: (1) institutional scholarships being counted as revenue and (2) failure to account for institutional loans and other amounts on a cash basis when counting them toward non-Title IV revenue.

Because the 85/15 revenue test is a critical determination affecting the institution's continued eligibility, it is important that practitioners examine the underlying information supporting the footnote disclosures and perform the necessary procedures to satisfy the applicable auditing standards. Audits found to be substandard relating to the 85/15 revenue test may result in rejection and referral of the CPA to the American Institute of Certified Public Accountants and the appropriate State licensing board for disciplinary actions. In addition, practitioners who are referred may be subject to suspension and debarment from Federal programs and/or civil actions.

Background

The Higher Education Act of 1965, as amended, (HEA) requires all institutions to obtain annual financial and compliance audits of their participation in the Title IV HEA program. The financial

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[1] This provision was contained in HEA Section 481(b)(6). The 1998 Amendments to the HEA that were enacted on October 7, 1998 changed this provision to require that after that date a proprietary institution have at least 10 percent of revenue from non-Title IV sources. Therefore, 85/15 is now 90/10.

statements must be prepared in accordance with generally accepted accounting principles and audited in accordance with the standards for financial audits of the U. S. General Accounting Office's Government Auditing Standards (GAS), issued by the Comptroller General of the United States. Regulations require that procedures for conducting the audits be available in audit guidance developed and issued by ED/OIG.

The July 1997 Audit Guide, Compliance Audits (Attestation Engagements) of Federal Student Financial Assistance Programs at Participating Institutions, states that the 85/15 revenue test is to be a footnote to the financial statements and instructs CPAs that the calculation is on a cash basis and must be computed in accordance with 34 CFR 600.5.

Scholarships and Institutional Loans

The preamble to the regulations, Federal Register/Vol. 59, No. 82/Friday, April 29, 1994, states that institutional scholarships and loans may be included in the revenue test but also clearly states that all revenue must be accounted for on the cash basis in order to meet the definition of revenue. (See Enclosure) Thus, current regulations require that scholarships and loans included as revenue to the school must result in an actual inflow of cash to the institution.[6]

Working Papers

The CPA is expected to determine whether the 85/15 percent calculation is fairly stated in all material respects and have adequate evidence in the working papers to support his/her conclusion. Government Auditing Standards, Paragraphs 4.34 through 4.37 require that working papers contain sufficient information to support the CPA's significant conclusions and judgments, of which the 85/15 calculation is one. AU 326.23 discusses the evaluation of evidential matter by the CPA.

Working papers must support the CPA's determination that the 85/15 calculation was made using the cash basis of accounting, that only cash revenues from eligible programs and locations are included in the calculation, and that the presumption of Title IV funds being applied to tuition and fees first is used. The CPA is expected to evaluate management's financial statement assertions against specific criteria. The criteria for evaluating management's assertions are found at 34 CFR 600.55 (a) and (d).

CPAs should be aware that materiality for 85/15 rule has a different threshold than the basic financial statement assertions because failure to meet 85/15 makes the institution completely ineligible to participate in Title IV programs. For example, a small error in accounting for cash could be immaterial to the financial statements taken as a whole, but could be the difference between meeting or not meeting the 85/15 requirement.

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[2] The 85/15 revenue calculation rules are part of the current negotiated rulemaking process. Until such time as new regulations are finally adopted, current calculation rules as outlined here are in force.

Quality Control Reviews

CPAs should be aware that the financial statement audits are subject to quality control review (QCR) by ED/OIG. QCRs of working papers supporting audited financial statements which reveal serious deficiencies in a CPA's audit work that results in the Department of Education relying on the institution passing the 85/15 revenue test when it did not, may result in:

* rejection of the financial statement audit;

* referral of the CPA to the American Institute of Certified Public Accountants and appropriate State licensing boards for any disciplinary actions they might impose;

* suspension and debarment of the CPA from Federal government programs; and/or

* civil actions against the CPA.

In addition, the Office of Student Financial Assistance Programs, Institutional Participation and Oversight Service may itself reject financial statement audits that are substandard.

Questions pertaining to this letter may be directed to Jim Burley in the Dallas Office at 214 880-3031 or may be faxed to 214 880-2492.

Sincerely,

Robert G. Seabrooks
Acting Assistant Inspector General
for Audit

Enclosure

ENCLOSURE

Requirements

The 1992 reauthorization of the HEA added a provision to the Act requiring that a proprietary institution (Federal Register/Vol. 59, No. 82/Friday, April 29, 1994):

> "...has at least 15 percent of its revenues from sources that are not derived from funds provided under this title, as determined in accordance with regulations prescribed by the Secretary."[3]

Federal regulations were issued that prescribe the formula for calculating the percentage. Title 34, Code of Federal Regulations (CFR) Section 600.5(d)(2)(i) specifies that:

> "...the title IV, HEA program funds included in the numerator and the revenue included in the denominator are the amount of title IV, HEA program funds and revenues received by the institution during the institution's last complete fiscal year."

In the Preamble to the Final Rule, the Secretary clarified that:

> "...since institutions must report and account for title IV, HEA program funds on a cash basis, the institution must also account for revenue in the denominator on a cash basis. Under a cash-basis of accounting the institution reports revenues on the date that the revenues are actually received."

The Financial Accounting Standards Board (FASB) defines revenue in its Statement of Financial Accounting Concepts No. 6 as:

> "...inflows or other enhancement of assets of a entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations."

Therefore, since revenues must be reported on a cash basis, the revenue that would be recognized for the 85/15 percent calculation must only be those revenues that result in an actual inflow of cash (revenue received).

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[3] This provision was contained in HEA Section 481(b)(6). The 1998 Amendments to the HEA tat were enacted on October 7, 1998 changed this provision to require that after that date a proprietary institution have at least 10 percent of revenue from non-Title IV sources. Therefore, 85/15 is now 90/10.

ENCLOSURE

Further, 34 CFR 600.5(d)(1) is clear that only revenue from eligible programs can be included in the 85/15 percentage calculation:

"...Title IV, HEA program funds the institution used to satisfy tuition, fees, and other institutional charges to students
The sum of revenues generated by the institution from: Tuition, fees, and other institutional charges for students enrolled in **eligible programs** as defined in 34 CFR 668.8; and activities conducted by the institution, to the extent not included in tuition, fees, and other institutional charges that are necessary for the education or training of its students who are enrolled in those eligible programs."(emphasis added)

Requirements for eligible programs are listed in 34 CFR 668.8. Eligible programs can only be offered at eligible Title IV locations [34 CFR 600.10(b)].

Also, for the purposes of the calculation, institutions must presume that title IV funds are used to pay institutional charges. Title 34 CFR Section 600.5(d)(2)(v) states that:

"...any title IV, HEA program funds disbursed to or on behalf of a student shall be presumed to be used to pay the student's tuition, fees, or other institutional charges, regardless of whether the institution credits those funds to the student's account or pays those funds directly to the student...."

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

NOV 1, 1999

CPA-99-02

Dear Certified Public Accountant:

On April 26, 1999, we issued Dear Certified Public Accountant Letter CPA-99-01. In that letter we provided guidance to practitioners performing financial statement audits of proprietary institutions on the 85/15 now 90/10 percent revenue test. The effective date for the 90/10 percent revenue test was October 1, 1998. Our letter stressed that the amounts to be included as revenue in the calculation were only those amounts measured using the cash basis of accounting.

The Department recently issued a Dear Partner Letter GEN-99-33 informing the education community of the enforcement policy it expects to follow with respect to institutional loans and scholarships between now and when the Department's new regulations go into effect on July 1, 2000. Specifically, the Department advised the education community that with respect to valid institutional loans and scholarships, the Department, absent unusual circumstances, did not intend to exercise its enforcement authority against institutions that rely on these loans and scholarships as non-federal revenue solely on the grounds that the loans and scholarships fail to comply with cash basis accounting requirements. See attachment 1 for the Dear Partner Letter.

This letter provides guidance for practitioners on how to evaluate institutional loans and institutional scholarships on other than the cash basis of accounting as a result of the Dear Partner Letter. All other guidance in Dear Certified Public Accountant Letter CPA-99-01 is still in force. Apart from valid institutional loans and valid institutional scholarships, all revenue amounts used in the calculation are measured solely on the cash basis of accounting.

Interim Disclosure Requirement

The Department has stated that, for institutions submitting their financial statements prior to July 1, 2000, it does not expect to use its enforcement authority, absent unusual circumstances, against institutions using valid institutional loans and institutional scholarships solely on the grounds that the loans and scholarships do not comply with cash basis accounting requirements. Institutions not using the cash basis of accounting for institutional loans or institutional scholarships must report two different percentages. The calculation for these two percentages must be provided for any period that the institution does not use the cash basis of accounting for institutional loans or scholarships.

The first percentage should include in the denominator the amount of institutional loans or institutional scholarships applied to the student accounts during the fiscal year that the auditor has accepted as valid under these guidelines. Only those amounts that conform to the presumption that Title IV is applied first to tuition, fees, and other institutional charges may be included in the calculation. The second percentage should include in the denominator only those amounts from institutional loans and institutional scholarships that can be measured as revenue using the cash basis of accounting. In addition, the footnote disclosure must also show the amounts used in both calculations. If an institution chooses to use the cash basis of accounting for institutional loans and institutional scholarships, only that one percentage needs to be reported.

To increase audit efficiency, we recommend that practitioners first determine whether the institution would meet the requirement using the cash basis of accounting for both institutional loans and scholarships. If the institution meets the requirement using the cash basis of accounting, the institution would report that percentage and the practitioner should use the guidance in Dear Certified Public Accountant Letter CPA-99-01. If the institution does not meet the requirement using the cash basis of accounting and computed its calculation using other than the cash basis of accounting, the practitioner must follow the guidance below to determine whether the institutional loans and scholarships were valid. The non-cash basis calculation may include only valid institutional loans and scholarships. As stated above, if other than the cash basis of accounting is used for institutional loans and scholarships, two percentages must be reported.

Institutional Loans

The Department has stated that " the facts must show that students routinely repay institutional loans." In addition, the loans must be "valid and not part of a scheme to artificially inflate an institution's charges." Practitioners should note only those amounts from valid institutional loans that are actually applied to student accounts can be counted in the calculation.

In evaluating institutional loans, practitioners will need to use professional judgment in determining the audit steps necessary to reach a conclusion on the validity of institutional loans. In our opinion, in evaluating the validity of institutional loans, the practitioner should, among other steps deemed appropriate:

XDetermine whether the institutional loans are supported by enforceable promissory notes.

☐ Evaluate whether the institutional loans are routinely repaid. As an indication that institutional loans might not be valid, we believe that a fair basis for comparison on whether institutional loans are routinely repaid is whether the default rate on institutional loans

exceeds 15 percent. This percentage for defaulted loan collections corresponds to the administrative capability threshold for institutions that participate in the Federal Perkins Loan program, 34 CFR Section 668.16m(1)(ii). In addition, the practitioner should evaluate the allowance for doubtful accounts in determining whether the loans are routinely repaid.

Even in cases where the loans appear to be routinely repaid, the practitioner should determine whether there is evidence of actual attempts at collection or enforcement of the promissory notes for non-performing loans.

- Evaluate the timing of the institutional loans. An indication that institutional loans may not be valid would be, for example, where the majority of institutional loans are made at the end of an institution's fiscal year rather than at recurring intervals that are related to an institution's enrollment cycle. In general, institutional loans would typically be made around the time a student begins an academic year or new period of enrollment.

Institutional Scholarships

The Department has stated that institutional scholarships "will only be valid if a substantial number of the comparable students are paying the stated institutional charges without receiving institutional scholarships, and the scholarships do not otherwise appear to be artificial transactions."

In evaluating institutional scholarships, practitioners will need to use professional judgment in determining the audit steps necessary to come to a conclusion on their validity. In our opinion, in evaluating the validity of institutional scholarships, the practitioner should, among other steps deemed appropriate:

- Determine whether a substantial number of students in the same eligible program at the institution are paying the stated institutional charges without receiving institutional scholarships.

- Evaluate the timing of institutional scholarships. An indication that institutional scholarships may not be valid would be if the majority of institutional scholarships are made at the end of an institution's fiscal year rather than at recurring intervals that are related to an institution's enrollment cycle. Another indication that the institutional scholarships may not be valid would be if the scholarships are awarded after students drop out owing the institution money.

- Determine whether students know that they were awarded scholarships and whether the students applied for the scholarships.

- Evaluate the criteria used for awarding institutional scholarships in making a judgment on the validity of the institutional scholarships. Criteria that can be manipulated may be an indication of invalid institutional scholarships. An example of an invalid criterion would be where the institution sets an academic standard for scholarships but allows management to lower the standard at its discretion.

- Determine whether the criteria for awarding institutional scholarships are consistently followed.

- Determine whether information regarding scholarships is generally made known to students, in its catalog, publications, or notices made available to students.

- Ensure that the amount of institutional scholarships included in the calculation corresponds to actual adjustments for institutional scholarships in the income statement. If the institution does not recognize the institutional scholarships for financial statement or tax purposes, they should not be recognized for purposes of the calculation.

Working Papers

In those cases in which the institution is required to report two percentages (one on the cash basis of accounting and one based on guidance in the Dear Partner Letter), the practitioners working papers must clearly document that an evaluation of the validity of institutional loans and scholarships was made.

Sincerely,

Lorraine Lewis

Attachment

UNITED STATES DEPARTMENT OF EDUCATION

WASHINGTON, D.C. 20202

October 1999 GEN-99-33

SUMMARY: This letter announces standards that will be used to review 85/15 and 90/10 eligibility calculations for proprietary schools that include institutional scholarships and loans as revenue.

Dear Partner:

During the recent negotiated rulemaking meetings to develop proposed regulations under the Higher Education Act (HEA) it became apparent that there have been some differing interpretations within the higher education community of the standards used to determine whether institutional scholarships and loans may be included in a proprietary school's 85/15 eligibility calculation. As a result, we are providing this policy guidance that will remain in effect until the final regulations for the changed 90/10 HEA requirements go into effect on July 1, 2000.

The preamble for the 85/15 regulations published in April 1994 established a general requirement that both the numerator and denominator of the 85/15 fraction be reported for the institution's fiscal year using a "cash basis of accounting [where] the institution reports revenues on the date that the revenues are actually received." 59 FR 22328. The preamble also explained that institutional scholarships and loans could only be treated as revenue in the eligibility calculation if they were valid and not part of a scheme to artificially inflate an institution's charges. If institutional loans are provided, the facts must show that the students routinely repay the loans. 59 FR 22328. Institutions have commented that these specific guidelines for institutional loans and scholarships were understood by some to supersede the general requirement that all funds in the 85/15 calculation must be revenue under a cash basis of accounting, and have requested additional guidance on this point.

Until the new regulations for measuring 90/10 eligibility calculations go into effect on July 1, 2000, the Department will use the following process for determining whether institutional loans and scholarships may be counted as revenue in an 85/15 or 90/10 eligibility calculation. The Department will continue to examine institutions closely to determine whether the institutional loans and scholarships are valid, particularly where a substantial amount of revenue is attributed to institutional loans and institutional scholarships. Institutional loans will only be valid if the students routinely repay them and they do not otherwise appear to be part of a scheme to artificially inflate an institution's tuition and fee charges. Institutional scholarships will only be valid for this purpose if a substantial number of the comparable students at the institution are paying the stated institutional charges without receiving scholarships, and the scholarships do not otherwise appear to be artificial transactions.

The Department will exclude institutional loans and scholarships from being treated as revenue in an 85/15 or 90/10 calculation when they are not valid under this analysis. Institutional loans and scholarships that fail this validity test may also be challenged on the basis that they do not constitute revenue under a cash basis of accounting. As to loans and scholarships that are determined to be valid under this analysis, the Department, absent unusual circumstances, does not intend to exercise its enforcement authority against institutions that count these loans and scholarships as revenue solely on the grounds that the loans and scholarships fail to comply with cash basis accounting requirements.

We believe that this enforcement policy, which is expected to remain in effect until the new regulation's effective date of July 1, 2000, provides institutions with a reasonable opportunity to demonstrate compliance with the requirements during prior fiscal years. The enforcement policy will apply to school audits and 85/15 or 90/10 eligibility calculations that are submitted to the Department before July 1, 2000. This policy will also provide ample time for institutions to ensure that they will be in compliance with the new regulations that will go into effect on July 1, 2000, including the requirement that all institutional loans and scholarships comply fully with the cash basis of accounting.

If you have any questions about this letter, please contact Keith Kistler in the Performance Improvement and Procedures Division at (202) 260-5742.

Sincerely,

Diane E. Rogers
Chief of Staff to the Deputy Secretary

D. Jean Veta
Deputy General Counsel

☆U.S. GOVERNMENT PRINTING OFFICE 2000-522-699/95099